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HOW MANDATES LIKE ESG DISTORT MARKETS AND DRIVE UP COSTS FOR INSURANCE AND HOUSING

HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING AND INSURANCE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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C O N T E N T S

Friday, July 14, 2023

OPENING STATEMENTS

	Page
Hon. Monica De La Cruz, Vice Chairwoman of the Subcommittee on Housing and Insurance, a U.S. Representative from Texas	1
Hon. Emanuel Cleaver, Ranking Member of the Subcommittee on Housing and Insurances, a U.S. Representative from Missouri	3

STATEMENTS

Hon. Bill Huizenga, a Member of the Financial Services Committee, a U.S. Representative from Michigan	2

WITNESSES

Mr. Bill Boor, President & CEO, Cavco Industries, Inc. and Vice Chairman, Manufactured Housing Institute, on behalf of the Manufactured Housing Institute (MHI)	5
Prepared Statement	36
Ms. Alicia Huey, Chairman, National Association of Home Builders (NAHB) and President, AGH Homes, Inc.	6
Prepared Statement	51
Mr. Jerry Theodorou, Director, Finance, Insurance and Trade, R Street Institute	8
Prepared Statement	60
Ms. Caroline Nagy, Senior Policy Counsel for Housing, Corporate Power, and Climate Justice, Americans for Financial Reform (AFR)	9
Prepared Statement	71

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Hon. Scott Fitzgerald:	
DOE Press Release dated May 18, 2022, "DOE Updates Mobile Home Efficiency Standards to Lower Household Energy Bills"	79
Hon. Maxine Waters:	
Written statement of the Private Equity Stakeholder Project (PESP)	83
Written statement of Public Citizen	87
Williams, Hon. Nikema:	
Picture displayed during the hearing	92

RESPONSES TO QUESTIONS FOR THE RECORD

Ms. Alicia Huey:	
Written responses to questions for the record from Representative McHenry	93
Written responses to questions for the record from Representative Waters	95
Ms. Caroline Nagy:	
Written responses to questions for the record from Representative Waters	96

Page

Ms. Caroline Nagy—Continued
Written responses to questions for the record from Representative Nikema Williams 98
Mr. Jerry Theodorou:
Written responses to questions for the record from Representative Waters 101
Written responses to questions for the record from Representative Nikema Williams 101

HOW MANDATES LIKE ESG DISTORT MARKETS AND DRIVE UP COSTS FOR INSURANCE AND HOUSING

Friday, July 14, 2023

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND INSURANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:11 a.m., in room 2128, Rayburn House Office Building, Hon. Monica De La Cruz [vice chairwoman of the subcommittee] presiding.

Members present: Representatives Davidson, Luetkemeyer, Norman, Fitzgerald, Garbarino, Flood, Lawler, De La Cruz; Cleaver, Velázquez, Tlaib, Pressley, Garcia, Williams of Georgia, and Pettersen.

Ex officio present: Representative Waters.

Also present: Representative Huizenga.

Ms. DE LA CRUZ. [presiding]. The Subcommittee on Housing and Insurance will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

Today's hearing is entitled, "How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing."

I now recognize myself for 5 minutes for an opening statement.

OPENING STATEMENT OF HON. MONICA DE LA CRUZ, VICE CHAIRWOMAN OF THE SUBCOMMITTE ON HOUSING AND INSURANCE, A U.S. REPRESENTATIVE FROM TEXAS

The subcommittee has convened today for a hearing entitled, "How Mandates Like ESG Distort Markets and Drive Up Costs for Housing and Insurance." This hearing is part of the committee's continuing work this month to investigate the far-reaching impacts of a new trend in the financial services world, forced government ESG mandates.

For those who are not familiar with it, ESG is the latest progressive buzzword for environmental, social, and governance factors. ESG is a form of virtue signaling where companies can proclaim how enlightened they are based on their environmental, social, or corporate governance actions, even if they have to ignore their fiduciary duty to their stakeholders or decrease the value of their goods and services to consumers. Those that give into the ESG movement think that it will make their company more popular with progressive agitators and investment companies. Those that do not give in

are pilloried and protested for having the audacity to focus their business, on their business. Essentially, ESG is, in many cases, a modern shakedown tool brought to you by today's cancel culture.

Now, some might ask, what is wrong with a company becoming more involved in environmental, social, or corporate governance issues and telling their customers about its values? The problem becomes when ESG is not being offered as a choice, but as a mandate. ESG mandates, like so many other government mandates before it, are always offered up as harmless tweaks on the path towards social enlightenment, free from cost or ill intent, that will make the markets work better.

Of course, the reality is the exact opposite. Mandates like ESG distort markets, drive up costs of products, reduce consumer options, create scarcity, and misalign investment capital. Made-up metrics, like ESG scorecards, are created to determine which companies are in the good graces of left-wing activists. These modern-day social credit systems drive a wedge within open markets by directing investments to companies that satisfy progressive demands. Your company's access to capital should not be dependent on being more, "woke," than your competitors. The far left should not be able to cancel your business because you do not comply.

ESG scores and mandates create a social credit system that makes life harder for American consumers, businesses, and retirees with little or no discernible benefits. So, today's hearing will explore the impact of the growing ESG movement on two different industries, housing and insurance, and what it means to consumers because ultimately, it is the job of government regulators to protect customers from collusion and unfair practices.

With that, I would like to yield 1 minute to my colleague, Mr. Huizenga.

STATEMENT OF HON. BILL HUIZENGA, A MEMBER OF THE FINANCIAL SERVICES COMMITTEE, A U.S. REPRESENTATIVE FROM MICHIGAN

Mr. HUIZENGA. Thank you, Madam Chairwoman. I appreciate the opportunity to address this subcommittee.

Last year, the Supreme Court ruled in *West Virginia* v. *EPA* that government bureaucracies cannot arbitrarily expand their own regulatory reach outside of the legal process. This new form of regulatory activism ignores reality, forcing American companies to defend themselves against regulations and rules that are immaterial to their business model. The rush to implement ESG policies in housing and insurance will come at a price, leaving taxpayers and our constituents with fewer choices and higher costs. Republicans will continue to defend capitalism, as Democrats continue to push their far-left ideology on the American people through the regulatory process.

I appreciate you allowing me to waive on to the subcommittee, and with that, I yield back.

Ms. DE LA CRUZ. The Chair now recognizes the ranking member of the subcommittee, the gentleman from Missouri, Mr. Cleaver, for 5 minutes for an opening statement.

HON. EMANUEL CLEAVER, RANKING MEMBER OF THE SUBCOMMITTEE ON HOUSING AND INSURANCE, A U.S. REPRESENTATIVE FROM MISSOURI

Mr. CLEAVER. Thank you, Madam Chairwoman. The title of today's hearing is, "How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing." A mandate, by definition, is a statute, law, rule, regulation, code, or ordinance duly adopted by any government authority, and in the United States, as in most nations, we have different levels of government and different branches of government and mandates at each level. No mandate is the same. Mandates of costs have benefits, which must be debated on their individual merits. Each of the witnesses with us today, based on what I have seen in their testimony, has their own mandates to discuss, and I would hope that this hearing will take on a clear focus by the end.

Let me just say this. In terms of cost, I am very concerned about the severe financial and nonfinancial costs for failures to adequately address environmental, social, and governance concerns. The best things in life are not always free.

Nature also has a mandate, and we are going to have to deal with it, whether we want to or not. In recent years, we have seen frequent and severe natural disasters in the United States, including hurricanes, wildfires, and floods due to climate change, and an increase in people living in high-risk areas, such as coastal areas vulnerable to severe storms and flooding, has worsened the impact of these events. Low- and moderate-income and minority households are disproportionately exposed to risk due in large part to historical discrimination and underinvestment in infrastructure in their communities. This has the most material impact on insurance costs.

According to FEMA, roughly two-thirds of communities facing hazardous risk have not yet adopted hazard-resistant building codes, which, if adopted in all future construction, would avoid more than $600 billion in cumulative losses from floods, and insurance paying out large amounts of money. In addition, current energy codes extend habitability during these weather-induced incidents by as much as 120 percent during extreme cold, and up to 140 percent during extreme heat, while reducing death by 80 percent, and 30 percent, respectively. Communities that regularly adopt modern energy codes also save money for residents and businesses and improve community health and resilience. Thirteen percent of U.S. households are now severely energy-burdened and are paying more than 10 percent of their income on energy.

The crisis of insurance costs is not ESG mandates, but just the opposite. There are significant costs for failing to implement ESG mandates that are passed on to others and pushed off to be paid at another time. ESG mandates will continue to be irreplaceable in reducing risks that drive costs, and in improving the resiliency of current and future housing stock with an eye toward affordability and racial equity.

Democrats are leading the way on this issue that we are required to address. We went through and approved the Infrastructure Investment and Jobs Act, as well as the Inflation Reduction Act, to help industry and local governments better address the underlying

issues. In housing, social considerations were ignored, and discriminatory zoning known to increase the cost of housing development and drive both economic and racial segregation have flourished. Democrats are leading the way on these solutions as well, through the Housing Supply and Affordability Act, the Yes In My Backyard Act, my American Housing and Economic Mobility Act, and several pieces of legislation put forward by Full Committee Ranking Member Waters.

The reality is that while reducing barriers is essential to fixing the supply problem, it will not be enough to address market failures. Even with commonsense regulatory reforms, builders cannot deliver low-enough rents without subsidy and robust government support for housing that must be built with a long-term aim at being able to withstand the environments in which they are built. I hope that we can have a good discussion today rather than denying the importance of ESG mandates, but to actually discuss how we can best move forward with ESG concerns in a sensible way.

Madam Chairwoman, I would like very much to ask for a moment of personal privilege.

Ms. DE LA CRUZ. Without objection, it is so ordered.

Mr. CLEAVER. Thank you very kindly. I have been here on this committee for almost 19 years, and we have had a lot of people who have been here with us, and those people have made the committee work, made the committee actually function both on the Republican and Democratic sides. From time to time, we have to say goodbye to some of our staff members, and today, Franklin Thornton is having his last day with the committee. He has been here for a while.

Many of us will remember that all during the COVID crisis, he was the first face we saw every morning, for good or bad, but he was there and gave us great comfort. He made sure that everyone was connected during a very turbulent time in our country. So, I just wanted to express, on behalf of all of us, our appreciation for his work, and it may be of some importance to his mom and grandmother to know that your offspring has been very good to us.

[applause]

Mr. CLEAVER. Thank you very kindly, Madam Chairwoman.

Ms. DE LA CRUZ. Thank you for your service, Mr. Thornton.

Today, we welcome the testimony of: Mr. Bill Boor, the president and CEO of Cavco Industries, and the Vice Chairman of the Manufactured Housing Institute; Ms. Alicia Huey, the chairman of the National Association of Home Builders, and the president of AGH Homes, Inc.; Mr. Jerry Theodorou, the director of finance, insurance, and trade at the R Street Institute; and Ms. Caroline Nagy, the senior policy counsel for housing, corporate power, and climate justice at Americans for Financial Reform.

We thank you for taking the time to be here today. You will each be recognized for 5 minutes to give an oral presentation of your testimony. Without objection, each of your written statements will be made a part of the record.

Mr. Boor, you are now recognized for 5 minutes to give your oral remarks.

STATEMENT OF BILL BOOR, PRESIDENT & CEO, CAVCO INDUSTRIES, INC. AND VICE CHAIRMAN, MANUFACTURED HOUSING INSTITUTE, ON BEHALF OF THE MANUFACTURED HOUSING INSTITUTE

Mr. BOOR. Thank you, Madam Chairwoman, Ranking Member Cleaver, and members of the subcommittee for the opportunity to testify today. My name, again, is Bill Boor. I am the CEO of Cavco Industries, the third-largest U.S. producer of factory-built homes. Last year, we delivered over 19,000 homes to deserving families. Today, I am testifying on behalf of the Manufactured Housing Institute, of which I am the Vice Chair.

With regard to ESG, good companies understand that considering all stakeholders, including the environment, is good business. The challenge lies in the tradeoffs and the execution. Narrowly-considered mandates and regulations which are only focused on one aspect of ESG often result in unintended consequences. While well-intended, it is undeniable that a lack of broad perspective in these mandates can get in the way of companies being able to move the ball forward on environmental and social improvements, while at the same time creating jobs, building the economy, and delivering solutions to problems such as affordable housing.

I want to discuss an example of a well-intended regulatory mandate that if allowed to proceed as proposed, will directly hurt those who are on the cusp of affording a home. This is the energy efficiency standard being imposed by the Department of Energy, which will drive up costs of manufactured homes without achieving the DOE's energy objective. The question is not just one of whether there is a return on the added upfront cost, but whether the prospective homeowner can even afford the cost at all. Based on studies of price sensitivity, if the added costs of the DOE rules are conservatively estimated at $6,000, over 900,000 households will be priced out of homeownership, so the tradeoffs and consequences are very real.

I want to emphasize that I am proud of the manufactured housing industry's record. By virtue of our controlled and efficient processes, we are inherently more environmentally-friendly than other sources of housing. We have a long history of consistent and ongoing quality and energy improvements, and we have a strong and positive working relationship with our regulator, HUD. This is an industry that agrees with the objective of continuing to improve energy efficiency, not one that needs to be dragged into doing the right thing.

As a result of what I view as a legislative misstep, we now face two regulators with overlapping, but different, mandates. HUD is expected to provide one set of Federal standards considering product safety, quality, cost, and the objective of increasing affordable housing. However, as a result of an unvetted rider in 2007, the DOE is now separately seeking to singularly drive energy efficiency with disastrous consequences for lower-income families. Briefly, the DOE rule holds manufactured housing to more stringent standards than other forms of construction. It significantly underestimates the burden placed on lower-income homebuyers, and it is impractical given our unique manufacturing and transportation processes.

The DOE's execution of their mandate has many problems, but fundamentally, the process and what they have been asked to do is flawed. Fortunately, it could be readily corrected with H.R. 3327, the Manufactured Housing Affordability and Energy Efficiency Act of 2023. Clarifying HUD as the sole regulator, and requiring DOE energy mandates to be worked through the established HUD process, does not stop our path on energy efficiency. It requires this one objective to be considered through an already-established holistic process.

Back to the subcommittee's topic, this is a microcosm of ESG challenges. Well-intended but myopic attempts to regulate singular topics are bound to mislead if they are not subjected to a holistic evaluation.

There are many other ESG-related topics I would like to cover, but I know my time is limited. For example, there is a role for the Federal Government to eliminate zoning barriers that prejudicially preclude our homes from needed areas. We are not looking for advantages, just an even playing field where we can compete with quality, lower-cost homes.

The central point I would like to make is that providing affordable homes is an incredibly important social need that manufactured housing is uniquely positioned to serve. Factory-built housing is the least-expensive form of unsubsidized homeownership, and enables us to do good work in responsible ways. We can dramatically increase affordable housing, while modeling corporate responsibility, if singularly-focused ESG regulations are worked through established holistic processes. Thank you.

[The prepared statement of Mr. Boor can be found on page 36 in the appendix.]

Ms. DE LA CRUZ. Thank you. Ms. Huey, you are now recognized for 5 minutes to give your oral remarks.

STATEMENT OF ALICIA HUEY, CHAIRMAN, NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB) AND PRESIDENT, AGH HOMES, INC.

Ms. HUEY. Thank you, Madam Chairwoman, Ranking Member Cleaver, and members of the subcommittee. I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our views on how burdensome regulation and mandates promoted by government support for environmental, social, and corporate governance policies impact our industry's ability to increase the production of quality, affordable housing.

My name is Alicia Huey. I am NAHB's 2023 chairman of the board, and a custom home builder from Birmingham, Alabama. NAHB's typical member builds 10 or fewer homes per year, and is a small business, so most of us are not directly impacted by ESG investing decisions. However, as ESG considerations are given more credence in various approaches to address climate change and other social issues, they are becoming increasingly relied upon to justify regulatory actions. As a result, government support of ESG policies is more and more likely to impact housing production and affordability.

As the ESG debate moves forward in this country, NAHB members are increasingly concerned about the far-reaching impacts and

how we will be challenged to comply. ESG policies have already caused insurance companies to drop out in some areas and to raise rates in others. Lenders are being urged to minimize the risk associated with their portfolios and may cease lending in certain locations or increase their borrowing rates. Likewise, small businesses doing business with publicly-traded companies may be required to provide their ESG risk data to those larger companies as supply chains continue to stifle residential construction projects across the nation.

We also worry that ESG disclosure requirements could further impede or prevent availability of the needed building supplies. Finally, we are concerned that overreliance on ESG factors often ignores the central tenants of consumer choice, market needs, and project feasibility, which are key considerations for home builders.

Like myself, NAHB members live in the communities in which they build. We are stewards of the environment, hire local workers, provide housing at a diversity of price points, run our businesses in responsible ways, and make positive contributions to the social and economic fabrics of our towns. However, government regulations continue to make it more difficult to provide an affordable housing product to our customers. Residential construction is one of the most heavily-regulated industries in the country. To emphasize the impact of this regulation burden, NAHB recently did a study which shows that approximately 24 percent of the price of a newly-built single-family home is due to the broad set of regulatory burdens imposed by the local, State, and Federal Governments. On the multifamily side, up to 41 percent of apartment development costs are due to regulations.

Many actions have been taken over the past few years to insert ESG considerations into Federal policies and regulations that add more uncertainty, delays, and costs to the homebuilding process, and negatively impact housing affordability. These include: recent legislation that uses the lure of Federal dollars to pressure State and local governments to adopt costly and restrictive energy codes; a growing effort in communities to cite ESG policies to gain support for laws and ordinances that ban the use of natural gas and propane within new construction and in existing homes, greatly limiting consumer choice; a push by the Department of Energy to increase energy efficiency standards for electrical distribution transformers during a time when a historic backlog is hampering development across the country; continuing regulatory uncertainty surrounding the most recent, "Waters of the U.S." ruling under the Clean Water Act; a recent decision by FEMA in California to suspend a critically-important floodplain mapping program that will result in homebuyers needlessly having to purchase flood insurance; and proposals being considered by Federal agencies that will have the unintended consequence of discouraging private sector participation in rental markets.

Finally, I have highlighted already a growing insurance crisis made worse by perceived risk and pressures to address ESG. That is making it more difficult for both existing and potential new homeowners to secure available and affordable insurance and is impacting development of affordable rental housing.

Thank you again for this opportunity, and I look forward to working with all of you.

[The prepared statement of Ms. Huey can be found on page 51 in the appendix.]

Ms. DE LA CRUZ. Thank you. Mr. Theodorou, you are now recognized for 5 minutes to give your oral remarks.

STATEMENT OF JERRY THEODOROU, DIRECTOR, FINANCE, INSURANCE AND TRADE, R STREET INSTITUTE

Mr. THEODOROU. Vice Chair De La Cruz, Ranking Member Cleaver, Chairman Davidson, and esteemed members of the subcommittee, thank you for holding today's hearing and for the invitation to testify. My name is Jerry Theodorou, and I lead the R Street Institute's Finance, Insurance and Trade Program. My focus at R Street is analysis of the property and casualty insurance industry. My research, publications, public presentations, and congressional testimony have focused on drivers of insurer performance and the impact of market and external factors on insurers, policyholders, and the economy.

Today's hearing is timely because environmental, social, and governance factors can influence insurers' performance, and, by extension, the availability and cost of insurance for consumers and businesses. Government mandates impacting the insurance industry, including ESG mandates, can distort insurance markets, leading to less choice and higher costs for insurance buyers. Examples of the ways that government or regulatory mandates can distort insurance markets include monopolies for certain insurance products, and intervention in how insurers may calculate their rates. For example, workers' compensation insurance is provided by a State-run monopoly in four States: Ohio, North Dakota, Washington, and Wyoming. The absence of private insurers there deprives employers of product choice in such a noncompetitive market.

In North Carolina, a rate bureau promulgates insurance rates. The State's rate bureau has been compared to a cartel because insurance companies set and use the bureau rates, depriving customers, buyers of insurance, of a choice.

In California, regulatory overreach has disrupted the insurance market in three ways: by prohibiting insurers from incorporating reinsurance costs into ratemaking; by prohibiting insurers from factoring current weather trends into rate calculations; and by allowing intervenors to challenge rate change requests with the implementation of the intervener process intransparent. As a result, many national insurers are curtailing their California insurance business.

ESG mandates can also impact the availability and cost of insurance if insurers are barred from insuring certain energy risks; because power plants cannot operate without insurance, they will find coverage outside the standard market from Lloyds, or from the surplus insurance marketplace, where costs are generally higher.

ESG mandates can also adversely impact the insurance industry's large investment portfolio. The property and casualty industry holds $1.2 trillion in bonds. Life insurers hold an additional $3.4 trillion in bonds. This is nearly 10 percent of the aggregate $51-trillion U.S. bond market.

If ESG mandates compel or prohibit investment in certain issues, insurers' investment income can be compromised, leading to higher insurance rates to meet shareholder return expectations. The core activity of insurers is to allocate capital to risk. Premiums reflect risk magnitude. Past losses and claims payments are signals that inform insurers about risk. If government bodies mandate rating factors that insurance companies may or may not incorporate into pricing, rate is decoupled from risk, and the market is disrupted. If insurers are coerced to price policies without regard for risk magnitude, they will abandon markets.

If ESG is mandated, with the government replacing the judgment of the private sector, it will have deleterious impacts, but if it is private sector-driven, it can be a useful tool in the toolkit. Mandates impacting insurers' coverage, price, or investment decisions render insurers less able to fulfill their three critical roles in the economy: paying for claims from disasters and other losses, enabling businesses to take on risks that they would not otherwise take; and buying municipal, government, and corporate bonds to support our nation's infrastructure and to satisfy America's need for capital in corporate America. Because the insurance industry plays such a vital role in the economy, mandates that may disrupt the industry deserve serious consideration. Exploration of the impact of ESG on insurers is, therefore, a timely and important undertaking.

Thank you for having this hearing, and thank you for listening to my views. I look forward to your questions.

[The prepared statement of Mr. Theodorou can be found on page 60 in the appendix.]

Ms. DE LA CRUZ. Thank you. Ms. Nagy, you are now recognized for 5 minutes to give your oral statement.

STATEMENT OF CAROLINE NAGY, SENIOR POLICY COUNSEL FOR HOUSING, CORPORATE POWER, AND CLIMATE JUSTICE, AMERICANS FOR FINANCIAL REFORM (AFR)

Ms. NAGY. Thank you. Vice Chair De La Cruz, Ranking Member Cleaver, and members of the subcommittee, thank you for the opportunity to present testimony on behalf of Americans for Financial Reform. We are a nonprofit, working to lay the foundation for a strong, stable, and ethical financial system, one that serves the economy and the nation as a whole.

Our housing and climate change crises are taking a tremendous toll on everyday working people. Following years of heavy losses from climate-exacerbated natural disasters, insurers in States across the country are raising rates and pulling out of markets altogether. Just this week, Farmers Insurance announced that it will pull out of Florida. In Louisiana, 11 insurers have gone bankrupt in the last 2 years, and 10 have left the State, and this is just the beginning. This problem will continue to grow worse each year, each decade, until the climate crisis is mitigated.

This hearing also comes at a time of unprecedented housing unaffordability and homelessness. In 2021, the number of tenants with unaffordable rents reached an all-time high, with 49 percent of U.S. renters paying more than a third of their income on rent. Although homeownership is still a goal for many, it is increasingly

unattainable when high rents hamper the ability to save for a down payment and home prices continue their meteoric ascent.

In terms of factors influencing insurance prices, with the exception of the National Flood Insurance Program (NFIP), insurance is regulated at the State level, and our States are home to a broad diversity of political viewpoints. Some, like California, have adopted more-stringent consumer protections, such as procedural limits on rate increases, while other States, like Florida, have passed anti-ESG laws. Yet, insurers are raising rates and withdrawing coverage in both of these States, which indicates that ESG is not the main driver of insurance unaffordability.

What, then, is behind these price increases? First, obviously, climate change is contributing to increasingly-frequent and severe natural disasters. This has translated into massive, often unsustainable losses for insurers. Climate change is, in effect, upending the risk calculus on which our insurance system has been based.

Second, reinsurance rates for catastrophic property coverage have greatly increased in recent years. July reinsurance renewal costs have increased—that is this July—by 30 percent to 50 percent for some U.S. policies. The reinsurance market is global and unregulated, meaning that we have little to no control over their rates or what they do.

Third, unsustainable land use practices. Many States and localities continue to permit or even encourage new housing construction in disaster-prone areas. These problems are obviously very complex, and there is no one simple solution. This really requires many agencies and levels of government acting in tandem to truly meet this challenge.

First, we need to support climate financial regulatory efforts. Financial regulators and institutions must manage and mitigate climate financial risks. Many lenders and insurers are contributing to the climate crisis by internalizing short-term profits through their investments in risky, carbon-intensive industries, while externalizing the costs onto their consumers, and ultimately withdrawing when the physical climate risks get too high.

We must also improve insurance data collection. Right now, we do not even have access to the data necessary to understand insurance trends on a national level, which is why we support the Federal Insurance Office's limited data request for ZIP Code-level data on homeowners insurance policies, and we urged the Office to go further in seeking more granular data.

We should consider developing a public reinsurance program for States. Reinsurance price increases are a major driver of insurance pricing, and a public reinsurance program could allow States and communities to opt in, in exchange for agreeing to consumer protections and limiting or ending development in hazardous areas.

We must support climate-resilient communities. The Inflation Reduction Act provided a large amount of Federal funding to make our homes more energy-efficient and climate-resilient. FEMA also has hazard mitigation grants and buyout programs, and these resources are deeply needed, and we will need more of them just to meet the current demand.

We need to support States in lowering disaster losses by limiting or ending new development in hazard-prone areas, investing in climate-resilient infrastructure, and requiring insurers to provide premium reductions when property owners undertake home hardening improvements that will improve their vulnerability.

My testimony has mostly focused on insurance. With regards to housing, we should require tenant protections on FHFA-financed properties and crack down on private equity abuses.

Thank you for the opportunity to provide testimony on these urgent issues. I look forward to answering your questions.

[The prepared statement of Ms. Nagy can be found on page 71 in the appendix.]

Ms. DE LA CRUZ. Thank you. We will now turn to Member questions, and the Chair now recognizes herself for 5 minutes of questioning.

My background is in insurance and financial services. I have been in that industry, or was in that industry for over 20 years, so I find particularly interesting the comments, and suggestions, and your thoughts as witnesses for this subcommittee hearing. Coming up to Washington, D.C., as a small business owner myself, and never having a political position besides this one, I have found it very disturbing how, when I sit in these meetings, the answer always seems to be more government regulation, more government involvement, or rolling out the government checkbook in order to help people all over this country, when as a small business owner myself in the past, I thought the answer was often looking at my own business and seeing what I could do for efficiency, how I could help my customers and my consumers.

Ms. Nagy, you mentioned Florida, and I am from Texas, so Florida and Texas have a unique kinship in how California has had stricter regulations when it comes to price increases for insurance versus California and Florida. The first thing that comes to mind is the company that I worked with—just because something happens in California and they regulate more, does not mean that the prices go away or the increases go away. Instead, that price is actually distributed to all of those other people to absorb the decisions that States like California make.

During the time of historic inflation, we just heard how the president of the National Association of Home Builders said that nearly a quarter of average sales for new family homes have been due to some of this increasing regulation, this ESG policy. In addition, add on to that the historic inflation under the Biden Administration. Could you please share with me how we might be able to look at, instead of having more regulations, ways that we could cut regulations and reduce costs that would ultimately be handed down to the consumer to be able to purchase more homes, to get more insurance?

Ms. NAGY. Thank you, Congresswoman De La Cruz. When thinking about the State-to-State differences, sometimes it is hard to make comparisons, because Florida has had a lot of hurricanes in recent years, and Texas and California have not. I think, though, if I was going to choose where I would rather be a consumer of insurance, I would pick California. In California, the insurance pre-

miums are significantly lower; for a home worth $500,000, an average rate payer in California is paying $1,822, compared to $4,629.

Ms. DE LA CRUZ. I am going to interrupt you right there. You are comparing apples and oranges.

Ms. NAGY. Yes.

Ms. DE LA CRUZ. We just talked about how insurance is based on risk. In the State of Florida, you have hurricanes, just like South Texas, where I am from. There is also high wind risk as well that you do not have in California, so it is unfair to compare the costs because the cost of insurance is based on the amount of risk. You do not have hurricanes, and you do not have the same wind elements that you have in South Texas or in Florida, so we think it is unfair to compare those two when you are talking about apples and oranges.

In the State of Texas, the National Flood Insurance Program (NFIP) was just recently here asking for more money because they are going broke. They took flood insurance away from insurance companies like my own and made it a government program, and guess what? We were asked to waive their debt because they are absorbing—and when I say, "they," I am talking about the American taxpayer—the cost of these government subsidies. So, I have real concerns about further government regulation and the ultimate cost to consumers. With that, I yield back.

I now recognize the ranking member of the subcommittee, the gentleman from Missouri, Mr. Cleaver.

Mr. CLEAVER. Thank you very much, Madam Chairwoman. I love my grandmothers, both my maternal and paternal grandmother. I loved spending the night with my maternal grandmother because I could make no mistakes. I could do nothing wrong. The only problem I had is when she wanted me to go to the store, which is not a bad thing, except that I had to pass by Ms. Nancy's house. Ms. Nancy had a Rottweiler, and I explained to my grandmother over and over and over that I was scared of that Rottweiler, whose name was Satan. She would say, do not worry about the Rottweiler. Just do not look him in the face. Just walk by. She did not tell him that because he tried to climb the fence on me every time, so I learned the lesson that ignoring something will not make it go away and will not make it friendlier. If it can get out, it will be Satan on this whole planet if we continue to ignore climate change.

Ms. Nagy, there is a growing concern about the lack of capacity in the insurance and reinsurance markets and the downstream impact it is having on consumers and property owners, mainly through massive cost spikes, coverage limitations, and exclusion of risk. Even worse, the problem is reaching crisis levels and has begun to raise serious alarm across the entire financial system, with trillions of dollars in uncovered and uncoverable risk. How do we stabilize the situation and prevent massive exposure to taxpayers in the wake of these disasters?

Ms. NAGY. Thank you for that question, Congressman. I live in upstate New York, and as I testify before you today, my neighbors in upstate New York and in Vermont are facing the heartbreaking loss of life, and the devastation of homes, businesses, and beloved local institutions, all from an unusually severe rainstorm. I think

we can say that this is no longer an issue that is a hypothetical. It is here right now. We all saw this very House building shrouded in wildfire smoke from the devastating Canadian wildfires that burned a greater area than any previous year on record, even before the wildfire season had begun, not to mention that we just went through the hottest June in recorded history.

Financial regulators and institutions must manage and mitigate climate financial risks, not simply push the costs off onto consumers. Many lenders and insurers are contributing significantly to the climate crisis by internalizing short-term profits through their investments, and financial regulators really need to monitor these risks and risk management methods to protect consumers, financial institutions, and the financial system.

In terms of how we can support localities, the first thing that we need to do is support hazard mitigation planning programs and buyouts where they are desired by the property owners. Land use is a very local issue, and there are rare times when Federal programs or regimes really impact things at that level but given the incentives for local governments to increase property tax revenue, there is always going to be a need to provide better incentives for States to reduce this development.

I think also in terms of planning grants, hazard mitigation, and building stronger building codes, one person's unnecessary regulation is another person's life saver. I think, as we all saw with the recent implosion of the Titan submersible, regulations do have benefits, they do protect people, and I know I would rather be in a safer, more-resilient building in the case of any emergency.

Mr. CLEAVER. Thank you very much.

Mr. Boor, would it not be better if we were spending a couple of hours dealing with this problem that is real, rather than debating whether or not we ought to do anything, and all of the issues that we do not want to pay any more money, we have to then write regulations? Would it be better if we spent the time trying to figure out how we deal with this problem that is not going to go away?

Mr. BOOR. Yes, I absolutely agree. I think the industry's position is we want to make progress, and we have made good progress. I will give you a little bit of background, when the DOE early on in the process of promulgating these rules——

Chairman DAVIDSON. [presiding]. The gentleman's time has expired. I now recognize the gentleman from Missouri, Mr. Luetkemeyer, who is also the Chair of our Subcommittee on National Security.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. Mr. Theodorou, I want to focus for a second on some of the self-inflicted problems in certain State insurance markets like California, which you mentioned, that seem to have a regulatory bias against insurers transferring risk from their balance sheets to the global reinsurance marketplace. From what I have seen, the ESG regulatory activism in California might be the worst of all. Right now, California is the only State in the country that does not allow insurers' rates to be based on their actual reinsurance costs, so as reinsurance costs go up, insurers cannot have their rates reflect those higher costs.

As a result, more reinsurers are starting to treat wildfires as a primary risk and not a secondary peril. The cost of reinsurance has

shot up while the cost to primary insurance companies of underwriting wildfire risk has stayed more or less flat. The net result here is either insurers have to purchase less reinsurance, or they will pull back from issuing new homeowners coverage in the State, as three of California's top insurers have done in this past year. So, Californians get fewer options and higher prices while the willing risk capacity of a $630-billion global reinsurance market goes underutilized.

Mr. Theodorou, does it make any sense to you that California would deliberately discourage the use of reinsurance at a time when its primary insurers are actively fleeing its homeowners market? How would the great use of global reinsurance and risk sharing help to benefit Californian consumers?

Mr. THEODOROU. Thank you, Congressman Luetkemeyer, for that question. Indeed, in California, where the cost of reinsurance is not permitted to be included in insurance rate making, you have a Catch-22. The reinsurance rates are going up because the risk is going up, and the insurers have their hands tied, and they cannot get more than a 6.9-percent increase. If it goes into the intervener process, it may be extended beyond the 60 days, so it is unfortunate that California cannot use reinsurance to its benefit.

To the question earlier about reinsurance, reinsurance capacity is there. The citizens in Florida got a billion dollars of reinsurance from Warren Buffett's Berkshire Hathaway, and the Texas Windstorm Insurance Association (TWIA) secured over a billion dollars of reinsurance protection from the private reinsurance industry, and also from the catastrophe (CAT) bond industry. So, reinsurers do have the capital, and they are willing to deploy it if they can make a fair margin. There are people who are standing on the sidelines, as Berkshire Hathaway was last year, when they did not participate in the Citizens Program because the rates were inadequate.

Mr. LUETKEMEYER. It would seem to me that if you were incentivized to use the reinsurance market more, it would actually drive down your costs. I know when I was chairman of this subcommittee 6-1-2-years ago, we were working on flood insurance, and we wanted to use the reinsurance market to help that situation. If we would have done it in the previous 20 years, we actually would have paid all of our claims, never had any tax bills go to the taxpayers, and still have had coverage at a minimum rate increase. So, there is a place for it. What is the percentage of increase in insurance costs due to ESG regulations?

Mr. Theodorou, do you know offhand?

Mr. THEODOROU. I do not have a number for it. The main ESG, not litigation, legislation is directed at State public pension funds.

Mr. LUETKEMEYER. Okay. Ms. Huey, one of the questions that I have is with regards to the increasing cost of financing homes, and how many people are unable to finance a home as costs go up due to rules and regulations. Can you give me an idea of what the cost of rules and regulations are from the standpoint of your average cost of a home? What would be the average cost of rules and regulations to the taxpayer or to the homeowner?

Ms. HUEY. Yes, sir. Thank you very much for that question. The latest study that NAHB has conducted, that was published in May

of 2021, showed that regulations imposed by all levels of government accounted for $93,870 of the average price of a new, single-family home, and that average price was around $397,000, so that is about almost 24 percent of the price of a new home. Our studies also showed that for every $1,000 increase, 149,000 people are priced out of the market.

Mr. LUETKEMEYER. Okay. For every $1,000 increase in the cost of financing a home, 149,000 people are unable to get themselves into a home. Is that what you just said?

Ms. HUEY. Yes, sir.

Mr. LUETKEMEYER. Thank you very much.

Chairman DAVIDSON. The gentleman's time has expired. The gentlewoman from New York, Ms. Velázquez, is now recognized for 5 minutes.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Ms. Nagy, worsening climate-driven natural disasters all over this country, not just along the coasts, are impacting the affordability and availability of property insurance that helps mitigate risk. A recent report by the National Multifamily Housing Council indicated that the average increase nationwide for property insurance coverage at apartment communities was a staggering 26 percent through early 2023. In some markets or at some properties, like many affordable housing communities, we have seen triple-digit increases. Soaring operational costs like this are straining property operations and adding to the cost of housing. How can this committee work towards providing some relief and drive greater capacity in the insurance and reinsurance markets to help address the soaring costs faced across the country?

Ms. NAGY. Yes. The issue of insurance for multifamily housing, and particularly for new, affordable multifamily housing development, is a major issue, and this is another area where I think consumer protections do have a role to play. In New York City, we are seeing insurers ask questions about how many folks living in this apartment are going to be receiving Section 8 benefits and in any other area of New York housing law, that would be a source of income discrimination.

Ms. VELÁZQUEZ. Right.

Ms. NAGY. With the insurers, we do not know what formulas they are using. They really treat their rate setting as a proprietary black box, and as a result, we have seen a lot of discrimination in how prices are set using algorithmic models to model things like crime rates. So, this is obviously an issue that is very concerning.

State regulators really have a role to play there, but so does the Federal Government, and that is why the Federal Insurance Office's data request is so important. That is why we support it, because we really cannot even know what the problem is until we get a sense of what is happening at the different State levels so we can better come here, as the Vice Chair said——

Ms. VELÁZQUEZ. So, there is a role for the Federal Government?

Ms. NAGY. Absolutely, yes.

Ms. VELÁZQUEZ. Okay. Thank you.

Ms. Huey, is there anything you would like to add?

Ms. HUEY. No, ma'am. Thank you.

Ms. VELÁZQUEZ. Okay. Mr. Huey, it is no secret that low- and moderate-income (LMI) communities and communities of color are often the most impacted by devastating flooding and other climate-related events. Within these communities, affordable housing or smaller rental properties can be disproportionately impacted as the current structure of Federal flood resiliency and disaster mitigation efforts is directed elsewhere. How can we leverage Federal resources and tools to drive better disaster protection and mitigation efforts toward the most-vulnerable communities?

Ms. HUEY. I'm sorry, could you repeat the question?

Ms. VELÁZQUEZ. How can the Federal Government redirect resources to mitigate the impact of climate change in LMI communities and communities of color? How can we leverage further resources and tools to drive better disaster protection?

Ms. HUEY. Yes, ma'am. Thank you for that question. I believe that with all housing, and certainly government assistance programs and things like that, if we look at the existing housing stock that we have, new construction is already so energy-efficient, and we build such a tight house in new construction because of the regulations that we have now, and we are happy to do that, but if we look at the existing housing stock, and I cannot remember the exact number of housing that there is, that is where we can address a lot of climate change, I believe. Homes and projects that were built in the 1970s to give them incentives for better insulation, higher Seasonal Energy Efficiency Ratio (SEER) units and HVAC units, caulking around the windows, and things like that would go a long way in helping climate change.

Ms. VELÁZQUEZ. My time is up. Thank you, Mr. Chairman.

Chairman DAVIDSON. I thank the gentlewoman. The gentleman from South Carolina, Mr. Norman, is now recognized for 5 minutes.

Mr. NORMAN. Thank you, Mr. Chairman. Ms. Nagy, let me ask you a question I asked some environmental activists who came by my office: Do trees have lives? Do trees have lives like people? Do they grow, and then there is a point that they die? I asked the activists the same question, and they said, what are you getting at? I said, it is a very simple question, do trees have lives, and they actually said, no, it is left untouched. In California, if you ask any forester the reason why you have forest fires, it's because you have these regulations that are letting thatch build up 2 and 3 feet. That does not make sense, and then for the commissioner in California to let government bureaucrats dictate rates that private insurers can charge is ludicrous.

In your role, you have a great example to actually go talk to a forester, and it can be maintained. If you are never going to cut a tree, if a tree lives forever, if you are never going to cut them and log them at a proper time to allow nature to take place, to allow the forest to breathe, if you are never going to take thatch away, that is kind of a tinderbox. Then, you have a problem, and that is a lot of the reason that California is having the problems that they are having.

Mr. Boor, in your industry, you serve over 22 million Americans who buy manufactured housing. You and I were talking the other day—and I appreciate you coming by—about some of the issues you are facing with this rule in the most-affordable housing market

that there is. If you go into a manufactured housing plant, they are doing an amazing job that site builders cannot do. It is controlled by a building such that rain and weather does not affect it. Tell me some of the things you were telling me about these regulations that are going to ruin the most-affordable housing and the most-promising housing in the country. Go over a few things.

Mr. BOOR. Yes, I appreciate the opportunity. I think, to your point, manufactured housing really is serving the lower price point. When we talk about affordability, people tend to talk about it at the median, and I think we are at the place where the rubber meets the road of whether or not people can buy a house. Yes, to give you some specific examples about the changes that would be required by these regulations, we would have to build thicker walls. You go from 2–by–4——

Mr. NORMAN. Give me an example, from 2–by–4 to what?

Mr. BOOR. 2–by–4 to 2–by–6.

Mr. NORMAN. 2–by–6.

Mr. BOOR. We would have to dramatically increase the insulation. That would cause us to increase eave heights. By doing that, we have to get higher-pitched roofs that, frankly, would not work for the transportation of many of our homes to sites. It would require heating and cooling equipment that, frankly, is not available to our industry right now in the sizes that would require and there are a lot of aspects like that on windows that would require argon gas, for which our industry currently does not have a supply. So, we would be redesigning hundreds of thousands of floor plans and trying to get those approved through the Design Approval Primary Inspection Agency (DAPIA) process and the HUD certification. It would be a very difficult transition for sure, but it would dramatically change the design and increase the cost for prospective homebuyers.

Mr. NORMAN. Would not it be behoove someone who has been putting regulations on you—it does not matter what agency—to come to your plant? When I have a problem, I go to carpenters. I do not go to bureaucrats who would not know a nail from a toilet. So, would it not behoove those making regulations to come by your plant or come by a plant and look at it?

Mr. BOOR. Yes, and we have another process under HUD where if you have worked through the HUD process, we have a consensus committee there that is made up of consumer advocates, people from the industry, who can help to understand how to come up with regulations that actually work for our industry, and that is what we encourage at the front end of DOE's process. I started to speak earlier about how at the front end, myself and other CEOs in the industry met with White House staff, and our message was, hey, we are on board, let's go raise the standards for energy efficiency, but let us be part of that so that we can make sure the mandates and rules that are put forth actually work for our industry.

Mr. NORMAN. Agencies work for us. We do not work for agencies. We pay their salary. A lot of times, that is forgotten in the real world of America and the real world of business. I would just urge you to keep at it, and invite every one of the panelists to a plant, and let them take a look at it. Thank you so much.

Mr. BOOR. Sounds good. Thank you.

Chairman DAVIDSON. The gentlewoman from Michigan, Ms. Tlaib, is now recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Mr. Chairman. This is, I think, our third hearing on this. It is bizarre to me, because one of the things that I have been really appreciative of in previous Administrations, and others have been talking about, is movement around weatherization and even manufactured homes, doing the kind of upfront, and it does cost money upfront, but it leads to reducing reliance—energy efficiency actually leads to lower bills for many of the families, and they cannot afford it, so it is not all going right out the window. We do not have some of those investments at the front end.

So it is really bizarre for me, and we continue to hear this as, oh, the whole housing crisis is because of this. I am taken aback, because we all know it existed before ESG even was invented or created. I know in my district, for instance, the tax foreclosure crisis was just unbelievable. We had one of the worst tax foreclosure crises in the country. These are families who actually own their homes, but they could not pay their property taxes. ESG had nothing to do with it. Nothing. Actually, probably if it did, maybe there would have been some sort of best practices or policies implemented, but they are also acting like ESG is binding. Is ESG binding, Ms. Nagy?

Ms. NAGY. It really depends on whether, by law, it is the standard.

Ms. TLAIB. Yes, they decide. Is it binding?

Mr. THEODOROU. It depends on the legislation and possible litigation.

Ms. TLAIB. I know, but right now, are ESG policies binding?

Mr. THEODOROU. They are not.

Ms. TLAIB. It is advisory, right? It is like, you should look into this.

Mr. THEODOROU. It is a factor that can be looked at because it may have correlation with risk magnitude, and it is consistent with fiduciary duty in the investment community.

Ms. TLAIB. Sure. How about you, ma'am?

Ms. HUEY. Code requirements are binding. Yes, ma'am.

Ms. TLAIB. They are binding. They are requiring them to look at these things because what, because it is actually increasing their mortgage payments? Is it increasing the cost of homes? I do not understand.

Ms. HUEY. The 2021 energy code would increase the cost of a home—I think some of our members say about $31,000 in their area.

Ms. TLAIB. One of the things that my colleagues talk about is manufactured homes, and it is about 11 percent, I think. Is it 11 percent, Mr. Boor, of single-family homes are manufactured housing? Is that correct?

Mr. BOOR. Yes, from that to the mid-teens.

Ms. TLAIB. Yes. One of the things that they were trying to advance is energy-efficient standards for manufactured homes, which many have claimed have made them unaffordable. The data shows that the cost to comply with energy standards, actually those im-

provements reduce maintenance and utility costs for manufacturing and housing residents in the long term. Is that correct?

Mr. BOOR. That is not correct.

Ms. TLAIB. Really? Why is that?

Mr. BOOR. There are——

Ms. TLAIB. Tell me, because you are all acting like this environmental, the whole little policies around looking at the fact that we have a climate crisis, is increasing the cost of manufactured homes, which we all know is because of private equity firms, because of investors. Ms. Nagy, you know I am right. All of this existed before that, and now that we are telling them, hey, you have to be more responsible, then all of a sudden, we are saying, no, no, no, no, no. You know that you are the reason we have to increase costs on these folks.

Mr. BOOR. Private equity firms are not generally involved in the manufacture——

Ms. TLAIB. I am just telling you, this is over-generalized because it is only 11 percent of your business.

Mr. BOOR. If you allow me——

Ms. TLAIB. You are saying right now that is not the reason that manufactured homes are rising in cost. You are saying it's ESG.

Mr. BOOR. I am saying it is a contributor and it is binding.

Ms. TLAIB. It is a contributor?

Mr. BOOR. It is a contributor.

Ms. TLAIB. When did ESG come up in the manufactured homes industry?

Mr. BOOR. ESG is a framework.

Ms. TLAIB. When?

Mr. BOOR. It is the mandates——

Ms. TLAIB. When? When did it come about? When did they start talking about it? 2019? 2018?

Mr. BOOR. We are facing these DOE requirements——

Ms. TLAIB. When did they start talking about ESG in your industry? No, I really mean it, because this is the bizarre thing; I never even heard of ESG until now. I am really curious, because to me and my families have seen the rising cost of housing, but not because of ESG. It is because of all of the other issues I wish we would be more targeted around talking about, because a majority of the homes in my district are less than $100,000, but we cannot get some of these banks to actually loan to them because it is not profitable.

So, somebody who wants to buy a $60,000 or $70,000 home in Wayne County, Michigan, cannot find somebody to lend to them because it is not profitable. Literally, everybody else is swallowing up these homes, because 60 or 70 investor firms come together, buy a bunch of them, and turn them into rental properties. We literally have a block where two people own their homes. The rest of them are renters, and they are paying way more than what they would have paid if they had gotten a mortgage from some sort of banking industry.

I am not disrespecting you all, but please do not make this about ESG. You are actually failing your members, and your industry, and literally your sector by focusing on ESG and not the root causes of why the cost of housing is going up in our country.

Chairman DAVIDSON. The gentlewoman's time has expired. I will note that votes have been called. There are 12 minutes remaining, and about 412 people who have not voted yet, so given the number of people who are here, my plan is to come back. If you would like to ask questions, we will continue the hearing immediately following votes. I would ask Members to get your final vote in early so we can come back and get some semblance of a quorum here and move forward with questions.

Before we adjourn, I think we have time for at least one more, so I will now recognize the gentleman from Wisconsin, Mr. Fitzgerald, for 5 minutes.

Mr. FITZGERALD. Thank you, Mr. Chairman. For about 150 years, State insurance regulators and laws have regulated insurance companies. The Federal Insurance Office (FIO) has grown increasingly aggressive in collecting data from insurance companies, most recently issuing proposed data collection to assess climate-related financial risk. The FIO intentionally chose to not collaborate with State regulators on this climate data call. Treasury's own proposal concedes it could take 350 hours for the industry to produce the data. That is why I plan, and I think some other members of the committee will be part of this, to repeal the FIO's subpoena power in the coming weeks.

Mr. Theodorou, can you just quickly discuss the Federal Insurance Office and their accumulation of power in recent years?

Mr. THEODOROU. Thank you, Congressman Fitzgerald, for the question. Indeed, the Federal Insurance Office was created as part of the Dodd-Frank Act because it was thought that insurance companies were, in part, responsible for the global financial crisis, which was not the case. It was banking and some nonbank lending institutions, and the role in statute of the FIO is to monitor the insurance industry. There are no regulatory powers there.

As you have suggested there, Congressman, there has been more intrusion and requests, data calls, and I think duplicative data calls because most of the large insurers, especially the publicly-traded ones, already make detailed granular climate disclosures, either in their 10–K or in other publications or disclosures. So to me, it is disturbing that it is like the nose of the camel is in the tent, and then the rest of the body is going to follow. It strikes me as an agency that is looking for a purpose because monitoring and writing reports has not helped the industry, that I have seen, in a material way.

Mr. FITZGERALD. Yes. Ms. Huey, can you talk about the importance of giving communities the flexibility of more self-sufficiency in their ability to protect themselves in the face of things like floods and wildfires and tornadoes? This is what the industry is looking at is, what are the risks associated with what we have seen, not necessarily in climate change, but just some of the extreme weather that we have seen.

Ms. HUEY. Yes, sir. Thank you very much for the question. Local decision-making is critical as local experts are more in tune to the local conditions and the needs of those communities and municipalities, but with that authority must come the flexibility to do what makes sense for the community. For example, in the codes arena, local governments must retain the ability to amend model

codes to accommodate local conditions and cost-effectiveness concerns, which include consideration of risk and reasonable steps that can be taken to reduce those risks. Communities must also be open to reconsidering local zoning and helping developers overcome NIMBY (Not In My Backyard) and other challenges so that development can occur in places that are best suited for community growth and where much of the market needs it to be.

Mr. FITZGERALD. Very good. Thank you. Mr. Chairman, I will just ask unanimous consent to enter a Department of Energy press release into the record. I think the featured press release from DOE is very telling.

Chairman DAVIDSON. Without objection, it is so ordered.

Mr. FITZGERALD. Mr. Boor, does the rule from DOE that we were talking about earlier in any way affect mobile homes? Will this help anyone currently residing in a mobile home? I cannot see where this would help them.

Mr. BOOR. No, the rules would affect new homes, so no one currently in a home would be helped.

Mr. FITZGERALD. Will this help anyone currently residing in a manufactured home?

Mr. BOOR. No.

Mr. FITZGERALD. No.

Mr. BOOR. Only new homes will be subject to it.

Mr. FITZGERALD. Yes. So, what you are telling me is that DOE probably does not even understand or fully understand the rule that they have actually issued?

Mr. BOOR. Yes, I think their assumptions about the benefits are dramatically overstated.

Mr. FITZGERALD. There is probably an underlying misunderstanding about your industry, right? Can you just talk about this?

Mr. BOOR. The rules are based on site-built standards, and our processes just do not work that way. We can get a lot of the benefits. We have done a separate study through the HUD committee, and we can get a lot of the way to where they are trying to get from energy efficiency, but with process-appropriate approaches.

Mr. FITZGERALD. Yes. This is real-world, tangible stuff, whether it is 11 percent, like my colleague just referred to, or some other percentage of Americans who are living in manufactured homes. This is real to them. There is real cost associated with it.

Mr. BOOR. Yes.

Mr. FITZGERALD. There are departments like DOE that, quite honestly, are out of touch with what is going on in the streets, and that is really what this committee should be about. So thank you, and I yield back.

Chairman DAVIDSON. I thank the gentleman. I now recognize the ranking member of the full Financial Services Committee, the gentlewoman from California, Ms. Waters, for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman, for this important hearing that you are holding on housing, and particularly, as I understand it, as it relates to ESG.

I would like to bring to your attention a particular issue that I think so many Americans are facing right now. For Ms. Nagy, the number of people paying unaffordable rents recently reached an all-time high, with the average U.S. renter now paying 30 percent

or more of their income on rent. Monthly mortgage payments have also reached all-time highs, surpassing $2,900 per month. In fact, in my State of California, someone making the minimum wage would need to work nearly 3 full-time jobs to afford a 2-bedroom rental home.

California is not alone. There is currently not a single State or county in the United States where a minimum-wage worker can afford fair market rents. Meanwhile, corporate landlords, who continue to grow their market share of housing, have used inflation as an excuse to hike rents and accumulate excessive profits on the backs of tenants. This is why last month, I introduced the Housing Crisis Response Act of 2023, which would make historic investments to increase our nation's affordable housing supply, reduce rents, and help end homelessness. Do you believe Federal investments are needed to fully address the nation's worsening housing and homelessness crisis?

Ms. NAGY. Yes, absolutely, Congresswoman. We have a severe national shortage of homes that people with the lowest incomes can afford. Nationally, we need 7 million homes that are affordable to Americans who live below the poverty line or who earn below 30 percent of the area median income. Unfortunately, because of actors like Blackstone, we are losing what remains of our affordable housing stock at a rate faster than we can replace it due to rising rents and stagnant incomes. Many homes that were once affordable to lower-income people have seen their rental or purchase prices increase; in just 3 years, 36 States lost more than 10 percent of their lower-rent units, and 14 States lost 15 percent. So, we do need to build a lot more affordable housing, and we need zoning reform to do it because in much of the country, only single-family zoning is allowed.

We also need to look at the Federal Government's role here. The FHFA spends billions of dollars purchasing and guaranteeing multifamily properties. As we have seen, this has really resulted in very poor conditions for some tenants, because there are some deals that only pencil out if you evict the lower-paying tenants or if you skimp on maintenance and repairs. The FHFA has a number of requirements for receiving it, some loan guarantees, and I think it is past time to consider the well-being of the folks who live in these buildings, because while housing is regulated at the local level, this is a national problem, and the Federal Government does have a role to play here.

Ms. WATERS. Thank you so much. Given all of this information, all of this knowledge, and the crisis that we have in this country, do you support the Federal investments for affordable housing in my bill, the Housing Crisis Response Act, including specific investment for green and resilient housing?

Ms. NAGY. Yes, absolutely. The resources in that bill really should have been passed earlier, because we have a huge need in deferred maintenance and public housing.

Ms. WATERS. I want to ask Ms. Huey the same question. Do you support the Federal investments for affordable housing in my bill, the Housing Crisis Response Act?

Ms. HUEY. Ma'am, I know that we have supported your legislation in the past, and I believe that our association is looking at that legislation. So, we are looking into it, yes, ma'am.

Ms. WATERS. Thank you. Keep looking. I yield back the balance of my time.

Chairman DAVIDSON. I thank the gentlelady. Recognizing that we have 2 full minutes remaining for votes, we will adjourn. It should be roughly 11:00 when we come back. I would estimate it might take until 11:10 or so if we wrap up there. So, I guess, be prepared in that time range. I correct that. We will not adjourn. We will recess. We will adjourn at the end of the hearing.

The subcommittee stands in recess.

[recess]

Chairman DAVIDSON. The committee will come to order.

The gentleman from Nebraska, Mr. Flood, is now recognized for 5 minutes.

Mr. FLOOD. Thank you, Mr. Chairman. Mr. Boor, one of the most detrimental regulations impacting the manufactured housing industry has been the Department of Energy's proposed energy conservation standards for manufactured homes. This regulation would impose stringent new requirements on the construction of manufactured homes, raising costs on one of the few affordable options for consumers, especially in rural areas like Nebraska, in my district. Fortunately, the DOE has decided to delay the compliance date for this rule after significant stakeholder feedback. Can you speak to the impact this proposed rule would have on the production of manufactured homes?

Mr. BOOR. Yes, thank you for the opportunity. We have processes under the HUD code where every plan for a house is engineered and approved. The rules would cause us to basically have to redesign every floor plan because of costs that are added in the weight of the house, the thickness of walls, the elevation of the roofs, and the number of windows that could be included. So, it is really a complete redesign of all of our designs that would then have to go through a recertification process. A lot of the costs involved are the actual changes to the design once you get through that process.

The other thing that is still undetermined is how the DOE rules would actually be tested, how the compliance process would go. We estimate that could cost another $1,500. What I would like to point out is that it is hard to give you one number as far as the total cost because we have different house designs, and each one is going to be a little bit unique, but I think a rough number for the actual changes to the design might be in the range of $6,000. There is a big range around that. Add another $1,500 potentially for the cost of compliance, which has not really been defined by DOE at this point, so let's just say, $7,000 to $7,500.

That may not sound like a lot, but I will make two points. One is the typical cost-benefit analysis looks at, will that money get paid back for the homebuyer over 10 years? Using DOE's analysis, which we do think is somewhat flawed, but we did not change it, we just updated for current costs, for the vast majority of our homes, that would not get paid back, and the bigger point is that $7,000 for a customer might be $50,000.

Mr. FLOOD. I appreciate your answer. I am going to reclaim my time. You and I are on the same page.

Mr. BOOR. Okay. Thank you.

Mr. FLOOD. People need to understand that. I want to just switch gears here and go to the auto insurance market. The average California annual rate for auto insurance in 2023 was $2,462, and meanwhile, the average rate in my home State of Nebraska is $1,538. That is a striking difference of almost $1,000 annually. California fashions itself as the home of innovation, but its broken insurance and regulatory framework does not even allow drivers to voluntarily share telematics data with their insurers in exchange for lower rates to reward good driving. For those who may not be familiar with the term, telematics can be installed in a car to track speed, harsh braking, or other indicators that may affect an insurance rate. Basically, by allowing drivers to opt into this, you are giving them an opportunity to lower their rates by demonstrating that they are a good, safe driver.

Mr. Theodorou, can you discuss how the use of innovative technology like telematics in auto insurance could lower rates, something Californians miss out on, and of which Nebraskans have taken advantage?

Mr. THEODOROU. Thank you, Congressman, for the question. Indeed, telematics can lower costs. If we look at the history of automobile insurance ratings, we start with bureau rating where the rates were set; then segmentation, looking at city drivers versus farmers, for example, looking at risk factors; then more granular segmentation; and then the development of Big Data, so pulling in different data elements because insurance companies are, by and large, in the data management business. They look at the data.

Telematics data makes it even more specific by looking at things like hard braking or turns that are very abrupt, and it feeds this information back to the driver and to the insurance company so that the risk, based on the quality of the driving, helps to determine the price. The capital is allocated according to the level of the risk, so it is sort of counterproductive to ignore this kind of data. It is being used in the trucking industry; commercial auto insurance is benefiting from trucks that have front-facing cameras that look at driver behavior, are they falling asleep, for example, and feed this data back, and this lowers costs.

Mr. FLOOR. Thank you, Mr. Theodorou. I must yield back.

Chairman DAVIDSON. The gentleman's time has expired. The gentlewoman from Texas, Ms. Garcia, is now recognized for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman, and thank you to all of the witnesses today. I just want to be mindful of the topic of today, "How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing." Mr. Chairman, I have to admit, I have sat and listened to all of the opening statements, and I am not sure that any one of our witnesses really gave us any example or any real data in connection between the disclosure requirements, which is simply about data and being transparent to disclose what you are doing, to how it actually distorts markets and drives insurance costs. I have been listening but, again, it is just a reminder to the people back home that, again, this is just about transparency. It is

about making sure we have the data to make the right decisions in terms of investors and consumers.

So instead of addressing real problems that my district faces, like high housing and insurance costs and accessibility, we are here today because Republicans are trying to forbid simple, common-sense data from being available to the public. For some reason, they have gotten this anti-ESG and anti-woke crusade, whatever that means. It is really perplexing because, again, in my district, we are worried about natural disasters, we are worried about the next hurricane season, we are worried about flooding, because in Houston, and in Texas, generally, that has happened more often than we can talk about.

Ms. Nagy, I think you said California and Florida have a lot of floods, and Texas does, too, in Houston, and our region is very flood-prone. For us, it is not about if we will have a disaster; it is about when it will come, so that is why insurance and housing costs are of utmost importance to me and my constituents, and it is very, very relevant right now, especially as we are facing hurricane season.

I know that my home State has already tried to dabble in this issue. They passed a bill, SB 833, that bans ESG risk analysis in the insurance sector, and, surprise, surprise, it drew a lot of opposition from a host of insurance trade groups. Again, ESG is data and disclosure. I think all our witnesses here, frankly, have failed to connect the dots as to how that affects the markets, increases the insurance rates, and impacts housing. Any Republican-led constraints on risk analysis or limitation on data should be seen as antithetical to the entire business model of the insurance industry.

There is now widespread concern that Texas bill will deter more insurance companies from entering Texas markets at a moment when growing flood risk has already made the Texas insurance market highly vulnerable. I have already heard about insurance companies leaving other high-growth States like California and Florida, as was mentioned earlier, denying consumers choices and coverage they desperately need and deserve. This is what it is all about, being able to give the consumer and the investor the choices to make the right decisions based on the data that is disclosed.

So, Ms. Nagy, I have a question for you. Given that insurance is a major channel through which climate risk is transmitted to the financial system, can you speak to the dangers of restricting insurance companies from using data and risk analysis in doing their business?

Ms. NAGY. Yes. I think I understand. Are you referring to the Texas anti-ESG law that prohibits insurers——

Ms. GARCIA. Right, but we do not have to speak specifically about the Texas law. I think this is what some of my colleagues would like to do nationally, but can you speak to the dangers of restricting insurance companies because, again, I think, was it you who mentioned that we really have no role in this other than the national flood insurance? All insurance goes through their State systems for doing business, so I am really not even sure why we are having this hearing. We should be focused on extending the National Flood Insurance Program, and improving it, and making it affordable, and making it accessible, especially to flood-prone areas

like mine. Apparently, we are dealing with it, so could you tell me what the dangers are?

Ms. NAGY. Absolutely. Climate change is real, and insurers need to be able to take that into account when setting rates. The public, too, deserves transparency in terms of how our rate is being set and where are folks having higher or lower rates. I think, both cases—sorry.

Ms. GARCIA. Mr. Chairman, I did have a couple of other questions. I will submit them to you for the record to get the responses in writing.

Chairman DAVIDSON. I appreciate the gentlewoman.

Chairman DAVIDSON. The gentleman from New York, Mr. Lawler, is now recognized for 5 minutes.

Mr. LAWLER. Thank you, Mr. Chairman. It is amusing to listen to some of my colleagues feign ignorance about ESG and the impact it has on the market. They know exactly what impact it has on the market because they have been advocating for government intervention in our market economy for years. If you look in my State of New York, as I mentioned in yesterday's hearing, with the New York State pension fund and the New York City pension funds, and what they do to try and dictate to companies and shareholders, it is remarkable. You look at our housing market and you see what New York is doing just this year: banning gas stoves, banning natural gas hookups. This is a State, and California being another one, where they are absolutely seeking to use their influence to upend the marketplace. They do not believe in free markets. They do not believe in consumer choice. In fact, they are trying to limit consumer choice, and what it does is it drives up the cost of housing.

So at the very time they talk about the need for affordable housing, when you limit choice within energy, you drive up the cost. The average homeowner would have to pay about $30,000 to $35,000 to convert their home from gas to electric. That causes a more difficult challenge for someone to purchase a home. So if we want to actually address the challenge of affordability, if we want to reduce costs, then we need to actually allow the marketplace to work.

In New York, 60 percent of New Yorkers rely on natural gas, and 70 percent of electricity is generated by natural gas. So if we are going to increase the need for electricity by converting everyone from gas to electric, how are we actually going to create that needed electricity? There are a lot of policies that get enacted precisely because of ESG that are having a profound negative impact on the marketplace and on the economy.

As I mentioned in yesterday's hearing, New York State's pension fund just returned a negative 4-percent return on investment, and what does that do? That hurts the taxpayers, because the pension fund has a guaranteed 7-percent return, so who picks up the tab? The taxpayers, at the same time New York is facing a $13-billion budget deficit and California is looking at a $35 billion dollar budget deficit. Great policies. Really working out well.

It is a disaster, because we want to say this is what should be instead of letting people choose what they would like. Most Americans would like companies and corporations to focus on their prod-

uct. You build homes, so build homes. Why are you getting involved in politics? You sell goods, so sell goods. Stop getting involved in politics. People are tired of it, and shareholders certainly want to know that there is a return on their investment. Otherwise, why invest in the company if you are going to have a loss? What is the point? Where do you get the capital from if that happens? We are making really bad policy decisions in the name of politics, and it is creating havoc all over the place, because politics now consumes everything. Leave the politics for the committee rooms, for the chamber, and let businesses do what they are set up and intended to do. We see every day the impact of this.

So yes, ESG does have a profound impact on our economy, yes, it does have a profound impact on our housing and insurance markets. Yes, we should be environmentally-conscious, and, yes, we should be making decisions to reduce carbon emissions, but we also need to make decisions that allow for the economy to grow and that create a situation where we have clean, cheap, reliable energy policies that positively impact the marketplace. With that, I yield back.

Chairman DAVIDSON. The gentleman's time has expired. The gentlewoman from Georgia, Ms. Williams, is now recognized for 5 minutes.

Ms. WILLIAMS of Georgia. Thank you, Mr. Chairman, and thank you to all of our witnesses for joining us today. Mr. Chairman, I would like to ask for unanimous consent to enter this picture into the record.

Chairman DAVIDSON. Without objection, it is so ordered.

Ms. WILLIAMS of Georgia. Thank you. I appreciate the opportunity to speak on this topic, because I am living through my own experience directly related to the impact of climate change on housing and insurance, so I bring my full lived experience to this hearing today. If you look at the image behind me, this is my 7-year-old son, my Carter Cakes, holding a golf ball-sized piece of hail from a hailstorm that was in my neighborhood on March 26th of this year. I live in Atlanta, Georgia.

Now, you all might be wondering, what is so extraordinary about a picture of hail? It was quite exciting for Carter, but that Sunday evening, my entire neighborhood experienced a catastrophic hailstorm which dropped these golf ball-sized hailstones on our homes, causing so much damage to our roof that we had to file an insurance claim. I would like to say that the story ends there, but sadly, it does not. Because of this extreme weather event, which was out of my control and happening more and more frequently, especially in the warm State of Georgia, I was notified that my insurance agency, State Farm, decided not to renew my homeowners insurance. So as of July 29th, I have no idea what I am going to do. My husband—who is with me here today—and I do not know what we are going to do for homeowners insurance, because State Farm will not renew our policy because we filed a claim. I was devastated, because this is a necessity for homeowners, and it is a requirement for most mortgages, including mine.

As insurance companies increase premiums and refuse to renew policies due to increasingly-common extreme weather, first-time homebuyers from marginalized communities will be the most impacted. This can ultimately stall any progress that has been made

in closing the racial wealth gap through homeownership, one of the primary drivers of wealth generation for Black and Brown communities. This means that in places like Atlanta, my home, and, unfortunately, the national leader in the racial wealth gap, my constituents' hard-earned equity is being destroyed by climate change because it is real. Unfortunately, I am not the only American who has been or will be dropped by their insurance agency due to extreme weather events beyond our control. Just look at the insurance companies pulling out of States like California due to wildfires or Louisiana due to floods.

Insurance companies are actively evaluating the risk of insuring homes in the areas most impacted by extreme weather and realizing how detrimental climate change is for their business. Because climate change is real, and it does have an economic impact on the long-term profitability of companies, clearly, climate change needs to be considered in the decisions of insurance companies. We also need to make sure that our most-marginalized communities who are most impacted by climate change are not prevented from building wealth through homeownership.

Ms. Nagy, am I getting your name right?

Ms. NAGY. "Nagy."

Ms. WILLIAMS of Georgia. "Nagy." What actions can the Federal Government take to lower insurance costs for Americans and make sure that homeowners remain insured?

Ms. NAGY. Thank you for that question, Congresswoman Williams. I am so sorry that happened to you. That is really not fair because you were doing everything you were supposed to. You were paying money for your insurance, and it sounds like they were happy to take your money——

Ms. WILLIAMS of Georgia. Every month.

Ms. NAGY. ——when things were going well. Then, all of a sudden when you need them, once you actually have a problem, they withdraw coverage. That does not sound like a good neighbor. That sounds like a fair-weather friend, and you are not alone. Unfortunately, 400,000 Floridians lost access to property insurance in 2022 alone, so this is what a lack of regulation is doing to consumers who are doing nothing wrong, and this is a real problem and one where the Federal Government should step in.

Now, obviously, the Federal Government does not regulate insurance because it is a State issue, but I do think there are things that States can do or that the Federal Government can do. I am very interested in examining public reinsurance options because, as we know, the reinsurance market is global. They are not even in this country, so we do not have very much to say about what they are doing with their rates, how they are setting them. I think that is one major area to explore, and I think you could have buy-ins like consumer protections. You cannot just drop people when they have problems. You have to continue to provide services or have State-run plans that should be more affordable to you.

Ms. WILLIAMS of Georgia. Mr. Chairman, I am out of time, but I have many more questions because the impact of this is personal for me and my neighbors. I would love to present them so that I could get written responses for the record.

Chairman DAVIDSON. For the record.

Ms. WILLIAMS of Georgia. Thank you.

Chairman DAVIDSON. I thank the gentlewoman.

The gentleman from New York, Mr. Garbarino, is now recognized for 5 minutes.

Mr. GARBARINO. Thank you. Thank you, Mr. Chairman, and thank you to the witnesses for being here. Ms. Huey, I want to start with you. When we talk about this issue, no matter what trendy new terms or acronyms we are using, I think we are all mostly in agreement that we should be doing more to make smart upfront investments in homes and infrastructure that will ultimately save lives and taxpayer dollars, and do it in a way that is not burdensome for homeowners or consumers. For instance, we have all heard the statistic that $1 spent on resilient construction will save $11 in future costs, but I think we often talk about this in the context of new construction, which, while very important, results in us losing focus on existing homes and ensuring we are giving folks the tools they need to upgrade older homes that were built long ago. Can you talk about the costs to homeowners and, frankly, all Americans, if we continue to ignore older homes and just focus on new homes?

Ms. HUEY. Thank you very much for the question. I really do think, as I stated earlier, that if we can offer some sort of incentives to existing homeowners to upgrade their HVAC units, to increase the energy efficiency of their homes—right now, the 2021 Energy Code has us going from five air changes to three air changes in a home. If you have gotten a window cracked, that could be 30 air changes. The house built in 1970 probably has 30 or 40 air changes in an hour. So if we could increase the efficiency of those homes, it would go a long way in helping with climate change. Existing homes are already so energy-efficient. You are really just tweaking something that is not going to make a big difference in the energy efficiency of a home, but it is going to cost a lot in new construction.

Mr. GARBARINO. Thank you. Yes, and I just had to have my air conditioner fixed. It is about 30-some-odd-years-old, it is in the tank, but it is definitely, I am sure, not very efficient.

We just talked about new construction a little bit and making home costs more affordable and just better for Americans. In New York, there is talk of, and I know my colleague brought up, a ban on gas stoves. Currently, between 60 and 70 percent of New York families have a natural gas stove. The State of New York, the Governor, and the legislature recently pushed for a gas stove ban for new buildings in its most-recent budget. This first-in-the-nation ban will increase energy costs for New Yorkers, stress the electric grid, and eliminate consumer choice, all while having a minimal environmental impact.

Furthermore, adding further government red tape and regulation on new construction will further drive up housing costs and that will price working families out. Unfortunately, we are seeing these same ill-advised policies pushed on the Federal level as well, with recent efforts from the Department of Energy and the Consumer Product Safety Commission.

Ms. Huey, how do these efforts affect the housing industry, and, if implemented, would these efforts drive up costs for Americans?

Ms. HUEY. Thank you, again, sir, for the question. There are many homebuyers who want a gas stove in their home; I know that I do. As a home builder, I believe it is my job to provide my customers with appliances of their choice. Gas stoves are used by 40 million homes nationwide and have proven to be a safe and efficient appliance of choice for families for well over a century. The recent push from Federal agencies to regulate gas stoves will drastically limit their availability across the country.

Recently, for someone, a custom home, and she loves to cook. I put in one of the gas stoves, and when we were going on the walkthrough, she looked at me and said, "Is the government really going to take my gas stove from me?" I said, "No, ma'am, they are not." Thank you.

Mr. GARBARINO. New York City is trying to get rid of coal-fired pizza. It is just brick oven pizza. It is terrible. Last question, Ms. Huey, for you. Often, overly-rigid local, environmental, and land use standards prevent homeowners from being able to make responsible decisions to reduce their risks in their homes from devastating natural disasters. One example is California, where stringent building requirements have hampered infill growth in areas at low risk of wildfires, and have instead driven homeowners into the highly-vulnerable wildland urban interface, putting them at increasing risk of extreme wildfires. Can you talk about the importance of giving communities the flexibility to force development that lets them be more self-sufficient and protect themselves in the face of things like deadly floods, wildfires, and tornadoes?

Ms. HUEY. Yes. Thank you again, sir, for the question. I discussed that a little bit earlier, and I believe it is in my written testimony. Giving local jurisdictions the choice of certain codes that they impose, I think, is imperative because the climate in every municipality is different. I am from Alabama, from Huntsville down to Mobile, where it is warmer, so I think it is imperative that we give the choice to those local municipalities. Thank you.

Mr. GARBARINO. Thank you. I yield back.

Chairman DAVIDSON. The gentleman's time has expired. The gentlewoman from Massachusetts, Ms. Pressley, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Mr. Chairman. I have been in Congress now for almost 4 years, but prior to that, I was on the municipal level for 8 years, and I was an aide for 16 years, so I have been in government long enough to know that it moves slowly, at a deliberate speed. I am a patient woman, but on the issue of climate change, we have run out of time, and now is not the time for anti-science, anti-environment culture wars. Now is the time for action to confront the climate crisis because our communities simply cannot afford to wait any longer.

More and more individual lives are being impacted. More and more homes and communities are destroyed by natural disasters each year, whether it is tornado, wildfire, or hurricane, which is one of the many reasons why I am grateful that President Biden signed into law my legislation, the Post-Disaster Mental Health Response Act but to those who would seek to weaponize what it means to be woke, I am unapologetically woke. I am awake, and

my eyes are wide open, because I owe it to my constituents to not look away.

In my district, the Massachusetts 7th, failure to address climate change means greater flood damage to frontline communities like Chelsea, Everett, and East Boston. To my colleagues across the aisle who seek to obstruct and oppose legislation and policies that will help our shared constituents around the country protect their homes from climate change, it not only alarming that you would move in this way; it is downright dangerous.

Ms. Nagy, since U.S. property catastrophic reinsurance rates increased by as much as 50 percent on July 1st, renewals, my constituents have had to pay more to protect their homes and their livelihoods. Can you highlight the impact of these price increases on the insurance rates paid by consumers?

Ms. NAGY. Yes, thank you, Congresswoman. As I said earlier, the reinsurance industry is not located in the U.S., so we really do not have any much of a say over the rates. They tell insurers, and insurers pay them, and that is how insurers are able to then offer their products to individuals. So, the idea of having a public reinsurance option for States to opt into could be a really powerful incentive to truly limit development in some of the most disaster-prone areas, because while we can all agree that folks should not be there, at the local level, they are often more concerned about property tax revenue above everything else, so you get this very short-sighted decision-making.

I think that the Federal Government can do a lot more to support making our homes more energy-efficient in new construction by having things like induction stoves, and I actually did—I am a homeowner who switched out a gas stove for an induction stove in the last year, and it was not because I am really woke, or maybe I am, but I do not even know what the word means anymore, but——

Ms. PRESSLEY. I'm sorry, I have to reclaim my time, only because I am running out of it. I do have one more question for you.

Ms. NAGY. Okay.

Ms. PRESSLEY. I did want to say again on the issue of these price increases on insurance rates, these insurance premiums will rise for our constituents if insurance companies and their investors continue to bury their heads in the sand and fail to account for climate risk. We are already seeing a disturbing trend with some of the largest companies deciding to stop selling new policies and leaving people without insurance coverage at all.

This is all clearly a result of climate change. It is not a question of whether it is going to happen, because it is already happening, and investors are saying they do not have a good sense of the climate risks that companies are facing. That is why it is critical that the government takes action. True enough, climate change is an existential threat, and, I would argue, so are the so-called leaders who deny that it is happening.

Ms. Nagy, will disclosures for financial and business risks associated with climate change, like ESG, strengthen our insurance market and help families protect their homes?

Ms. NAGY. Yes.

Ms. PRESSLEY. Thank you. I agree, and I yield back.

Chairman DAVIDSON. I thank the gentlewoman, and I now recognize myself for 5 minutes for questions.

We wanted to have this hearing and talk about the dynamics in the market. Frankly, how do you accurately assess risk and how do you price risk? It is clear that losses are getting more frequent and larger, and when you think about insurance, you have to be able to price that in. It costs more money. It happens more often. So, how in the world do prices not go up? They have to go somewhere.

If you look in California, they decided they were going to impose price controls so that you cannot raise premiums, and also you cannot drop customers. So, you go on site and you say, the gasoline stored in the outbuilding next to the pine straw next to your woodhouse is a risk, we would really like you to mitigate it. No, and then the insurer still cannot drop the customer? Are you kidding me? You have to be able to price risk.

Part of the goal of the recognition of the ESG code that apparently is going to go out of fashion, if I listen to Larry Fink—just do not call it ESG—but we are still going to do it. They will come up with a new label. It is a shape-shifting ideology, but the reality is we are dealing with more-frequent and bigger losses. A lot of those are looking at environmental places like California with wildfires, and Florida with weather events, flooding, and hurricanes, and in my State, more often, it is tornadoes, but you have to price that risk in order to stay in business.

The alternative is things like the National Flood Insurance Program, where we have actually drafted bills, we have had hearings on, and we are working to get towards a markup this year, but they do not have to make money, right? They do not, so they do not. They lose quite a lot. The Federal Government offers the National Flood Insurance Program because insurers cannot really accurately cover all of those things, so it is a supplement to the market, and the Federal Government is involved there.

Terrorism risk insurance, another thing the Federal Government gets involved in. Overwhelmingly, it is a State issue, and I think the best way to think about housing is as a State issue. You have different planning and zoning codes because, frankly, the risk of earthquakes in California is bigger than it is in Ohio, and we like the idea of building codes. We do not want things to happen in America like what happened in Turkey because they did not have big building codes. We should trust that our buildings are resilient for the area they are built in but too often, when regulators decide that they are going to be the ones, central planners are going to decide instead of the market, they get it wrong, and they oppose one-size-fits-all rules that do not accommodate all the flexibility that markets need.

Prior to coming to Congress, I was in manufacturing, and for me to get the supply chain right to design and build something, I needed some lead time. Some things we can turn around quickly, but other things take a little longer.

Mr. Boor, when I think about manufactured housing, part of the way that we make it affordable is that it is manufactured on site, all the planning and zoning for electrical and plumbing and whatnot can be done there, and it is normally regulated by HUD. Now,

we have the Department of Energy dropping in something that is not only hard to comply with on the timeline, but it disrupts the regulatory certainty that the industry needs. Could you talk about how that impacts your ability to deliver an affordable product?

Mr. BOOR. Yes. We are really uncertain where we are going to be heading from the overlapping requirements by very different regulators if the DOE process continues. I want to be clear: We are not talking about not moving the ball forward on energy efficiency. We are talking about doing it in a holistic fashion, where the impacts are thought through, and we can make great strides. I think we are on a path right now where we are going after, "E," at the expense of, "S."

Chairman DAVIDSON. Thank you. Thank you for making that point, and hopefully, we can remedy it.

Mr. Theodorou, when I think about pricing risk, you have committed a lot of work to it. I just wonder if you could highlight some of the issues that we are confronting in the insurance space?

Mr. THEODOROU. Thank you, Chairman Davidson, for the question. Indeed, the price of reinsurance has risen in the January 1st renewals, the June 1st renewals, and the July 1st treaty renewals, and it is a major part of the costs of insurance policies. After administrative expenses and claims, is the cost of reinsurance, and it is getting higher. The good news is that there is capital out there that is coming in: private capital, pension funds, sovereign wealth funds, and other asset owners.

Chairman DAVIDSON. I appreciate that. I just have to get one more question in, but part of the problem for insurance is, if you cannot insure a site that you are going to develop, it is hard for builders to do it, and you cannot get the cover to provide for the market.

Briefly, Ms. Huey, could you highlight the challenge there?

Ms. HUEY. Yes. Thank you, Mr. Chairman. On July 1st, FEMA halted parts of the Mapping Program under the National Flood Insurance Program. Home builders were getting conditional letters of map revision and letters of map revision to prove that the homes they built were no longer in the floodplain, which requires the homebuyer to purchase flood insurance. By delaying this program for an indefinite period of time, we have a great fear that this will only increase the cost of homes. It is unclear how many future communities——

Chairman DAVIDSON. I apologize, Ms. Huey. Thanks for getting as much in as you could. My time has expired. I really appreciate our witnesses for traveling, for being here, and for providing your expertise, and I thank my colleagues for spending some extra time, understanding the impact of this issue. I hope we will inform future legislation.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

With that, this hearing stands adjourned.

[Whereupon, at 11:53 a.m., the hearing was adjourned.]

A P P E N D I X

July 14, 2023

Written Testimony of:

Bill Boor

Chief Executive Officer
Cavco Industries, Inc.

Vice-Chairman
Manufactured Housing Institute

Before the:

U.S. House of Representatives

Committee on Financial Services
Subcommittee on Housing and Insurance

Hearing Entitled:

"How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing"

July 14, 2023

Thank you, Chairman Davidson, Ranking Member Cleaver, and Members of the Subcommittee, for the opportunity to testify today about how various mandates can distort markets and drive up costs for housing.

My name is Bill Boor and I am the Chief Executive Officer of Cavco Industries, Inc., a public company engaged in the production of factory-built homes. Our company was founded in 1965 in Phoenix and today we operate 31 manufactured housing factories across the country, 64 retail locations, a manufactured housing lending business and an insurance company. Our company employs approximately 7,000 people across the United States. Last year we produced 19,376 homes, doing our part to help alleviate our country's critical housing shortage and control rising housing costs.

At Cavco, we focus on delivering the high-quality, safe, reliable, and affordable housing our customers desire in a way that benefits all of our stakeholders from our valued employees, customers, and suppliers, to the communities in which we operate and deliver our homes, to the environment, and, indeed, our investors. We are fortunate to come to work everyday knowing that our work is making a tremendous, positive social impact through the quality, affordable housing we deliver, and a positive environmental impact through processes that are, by their very nature, more efficient and environmentally friendly than alternative forms of construction. We have embraced robust compliance and quality assurance regulations, that are in many instances more stringent than those for traditional site-built homes. However, we do not need to be managed by external interests who generally lack a holistic understanding of our product, our processes, or the housing needs of our customers, and risk imposing requirements that lead to unbuildable or prohibitively expensive products. Our customers and our values drive our priorities within the context of our mission and inform how we define success. Under this principle, Corporate Responsibility is not separable from operating and growing the business. To the contrary, it is good for business and an integral component of what makes Cavco successful.

I am appearing before you today on behalf of the Manufactured Housing Institute (MHI) where I serve as the Vice-Chairman of the Board of Directors. Therefore, my testimony today is on behalf of the manufactured housing industry. In September 2023, I will become MHI's Chairman. MHI is the only national trade association that represents every segment of the factory-built housing industry. MHI members include home builders, suppliers, retail sellers, lenders, installers, community owners, community operators, and others who serve the industry, as well as 48 affiliated state organizations. MHI's members are responsible for close to 85 percent of the manufactured homes produced each year. In 2022, our industry produced over 112,000 homes, accounting for over 11 percent of new single-family home starts and 7 percent of total housing starts. Manufactured homes are produced by 35 U.S. Corporations in 147 plants located in communities across the United States.

As context to the topic of Envronmental, Social, and Governance (ESG), it is important to understand the track record of the manufactured housing industry. Our industry has a history of significant and meaningful improvement in safety and quality. Our modern, factory-built homes compare favorably to site-built construction in durability and energy efficiency. Many of our homes qualify for Energy Star certification and other government programs for energy efficiency. In short, the Subcommittee should be disavowed of any misperception that ours is a lagging industry that needs to be pulled forward with regard to ESG performance. We build to a federal construction code that

has been developed by and administered by HUD for 48 years and we share the objective of continually improving building standards in a balanced manner. The vast majority of manufactured homes being built today exceed HUD's standards for energy efficiency.

Congress passed the Manufactured Housing Construction Safety Standards Act of 1974 (the MHCSS) making HUD the sole and primary governing body over passage and enforcement of manufactured home construction standards (the HUD Code). The MHCSS can be interpreted as taking into account ESG principles since it requires HUD to balance affordability and cost-effectiveness through performance-based construction standards. As a part of the MHCSS, HUD has the statutory responsibility to "facilitate the availability of affordable manufactured homes and to increase homeownership for all Americans." As new regulations are considered, HUD is "to ensure that the public interest in, and need for, affordable manufactured housing is duly considered in all determinations relating to the Federal standards and their enforcement."[1] MHI strongly supports this approach to our building code.

MHI and its members always have supported, and will continue to support, energy conservation and efficiency efforts. New factory-built manufactured homes currently are at least as, if not more, efficient than new site-built homes. Today's manufactured homes offer many energy efficient options and have energy efficient features that are tailored to the climate demands of the region in which each home will be sited. Further, the controlled environment of the factory-built process not only offers consumers unmatched quality and affordability due to technological advancements and other advantages, but the industry is a pioneer in the development of processes that value efficiency and reduce waste. Our in-factory home builders constantly are developing new initiatives and technologies, such as advanced, computer-aided design, and comprehensive recycling programs, that dramatically reduce waste. Today's modern manufacturing plants are so efficient that nearly everything is reused or recycled such as cardboard, plastic, carpet padding, vinyl siding, scrap wood and much more.

Bottom line, we believe ESG goals are best defined by the stakeholders most directly impacted. Whatever label one wishes to put on it, today's housing manufacturers are in the business of delivering positive social, environmental and economic impact by listening to our customers and working for

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[1] The MHCSS has the following express statutory purpose:

(1) to protect the quality, durability, safety, and affordability of manufactured homes;
(2) to facilitate the availability of affordable manufactured homes and to increase homeownership for all Americans;
(3) to provide for the establishment of practical, uniform, and if possible, performance-based Federal construction standards for manufactured homes;
(4) to encourage innovative and cost-effective construction techniques for manufactured homes;
(5) to protect residents of manufactured homes with respect to personal injuries and the amount of insurance costs and property damage in manufactured housing, consistent with the purposes of this section;
(6) to establish a balanced consensus process for development, revision, and interpretation of Federal construction and safety standards for manufactured homes and related regulations for the enforcement of such standards;
(7) to ensure uniform and effective enforcement of Federal construction and safety standards for manufactured homes; and
(8) to ensure the public interest in, and need for, affordable housing is duly considered in all determinations relating to the Federal standards and their enforcement.

them and with other relevant stakeholders to deliver the high-quality jobs and housing American families want and need.

An unfortunate example of an imbalanced regulatory approach to ESG exists in energy standards the Department of Energy (DOE) promulgated for new manufactured homes last year. Even though our industry clearly leads the way in energy efficient building processes that produce energy efficient residential housing, these standards create a number of legal, policy, and procedural problems that stand to adversely impact our industry, our customers in search of quality, affordable housing, and policymakers' goals of boosting affordable housing supplies. However well-intentioned, these standards were developed without the input of those who know the housing manufacturing business or who are most in touch with the needs and concerns of housing stakeholders, and resulted in standards that are in conflict with the MHCSS. If finalized as proposed, these standards would significantly threaten the affordability of new manufactured homes – our nation's most affordable homeownership option – by imposing costs on homeowners that far exceed any reasonable value placed upon the hoped-for energy savings. Stated otherwise, low-income consumers will be forced bear the cost of an overzealous and ill-informed approach to ESG at the expense of the American dream of homeownership, but also, perhaps counterintuitively, at the expense of helping households move into what for most would be newer and more energy-efficient housing than they have now.

Because it is such a stark example of how a well-intentioned energy mandate can have significant negative consequences for affordable housing, my testimony will focus primarily on problems and solutions with regard to the DOE energy standards for manufactured housing. This should be of particular interest to this subcommittee, as HUD is supposed to have sole responsibility for federal manufactured home construction standards according to the MHCSS. MHI calls on Congress to reaffirm HUD's exclusive role in setting manufactured housing construction standards by passing H.R. 3327, the Manufactured Housing Affordability and Energy Efficiency Act of 2023, which is bipartisan legislation that will subject all building standards for manufactured housing to the HUD Code process. This would eliminate crippling conflicts in federal regulations over the construction of manufactured homes, which currently have now emerged between DOE's standard and the HUD Code. H.R 3327 would ensure that homeownership affordability and the logistics of factory-built construction get fair consideration in the development of federal manufactured home standards, which was the original intent of Congress in establishing a federal construction code for manufactured housing.

My testimony will also touch on other manufactured home availability and affordability issues where we believe Congress and federal agencies can take constructive actions to expand homeownership opportunities. Rather than artificially making it more difficult for us to produce quality, affordable housing we believe there are things that Congress and federal agencies can do to facilitate the availability of manufactured housing. For example, HUD is authorized to, and should do more to, intervene when localities impose barriers restricting manufactured housing. MHI also supports the specific items in the Administration's Housing Supply Action Plan calling for increasing the usability of FHA's Title I loan program for manufactured housing (including greater securitization of Title I loans through Ginnie Mae's platform) and updating the HUD Code to allow manufacturers to modernize and expand their production lines. In addition, Congress should support the preservation, expansion and development of manufactured home communities.

Manufactured Housing Has a Critical Role in Meeting Nation's Housing Supply Challenges

As Congress confronts the nation's housing supply challenges, it is important that the Committee understand that manufactured housing is the largest form of unsubsidized affordable housing in the United States - and by far the most affordable homeownership option for American families. However, the longstanding historical role of manufactured housing as the most affordable homeownership option could be undermined severely depending on how certain federal policies are handled.

Manufactured housing offers affordability and quality to consumers because of technological advancements, cost savings, and efficiencies associated with the factory-built process. Manufactured housing is the only type of housing constructed to a federal residential building code, which is regulated by HUD. The HUD Code's single regulatory framework for home design and construction includes standards for health, safety, energy efficiency, and durability. Since 2000, these federal standards have been developed and revised through a deliberative body made up of industry professionals, state officials, and consumers – the Manufactured Housing Consensus Committee (MHCC) – which makes recommendations for the HUD Secretary to act on, retaining final authority over new standards. Further, manufactured homes are subject to minimum federal installation standards. As a result, consumers enjoy the reliability of new manufactured homes that meet high and uniform national standards.

In 2022, the average sale price of a new site-built single-family home without land was $413,160. By comparison, in 2022, the average price of a new manufactured home was $127,250. In addition, statistics dramatically show that manufactured homes disproportionately serve low and moderate-income families, compared to site-built homes. The average manufactured home homeowner's median household income is approximately $35,000 per year, far below the national average. In contrast, the average median income for a site-built homeowner is over $100,000.

The manufactured housing industry is at a critical crossroads due to regulatory barriers and market forces. Cumulative shipments from January 1 through April 30, 2023, decreased by 30 percent compared to the same time period of 2022. April 2023 shipments were down 34 percent compared to April 2022 shipments. These decreases in shipments are being caused by prospective homeowners being priced out of potential purchase due to increased costs of construction and skyrocketing mortgage interest rates – factors affecting all segments of the housing industry. When families are priced out of buying a manufactured home, they are priced out of the security and wealth-building benefits of homeownership.

Congress Should Ensure HUD is the Sole Regulator for all Manufactured Housing Construction Standards

The most significant challenge facing the affordability of manufactured home ownership is pending manufactured housing energy standards finalized by the DOE in May 2022. Unless these standards are substantially revised, (1) the cost of every new manufactured home will unnecessarily increase by thousands of dollars per home; (2) the annual costs incurred by the homebuyer through

increased mortgage costs will exceed the purported energy savings under the new standards; (3) many potential manufactured homebuyers will no longer qualify for a mortgage loan, due to the impact of higher prices on debt to income (DTI) ratios and related prudent lending limitations; (4) manufactured home energy standards will be governed by inappropriate standards designed for site-built homes, instead of by standards that take into account the distrinct characteristics and benefits of manufactured homes; and (5) manufactured homes will be held to a higher energy efficiency standard than site-built homes.

The problem is simple: the standards were developed by DOE without any meaningful input from HUD, whose overall mission is housing affordability, and which is the exclusive repository within the federal government of expertise regarding construction and safety standards. The DOE's narrow attempt to push a singular ESG objective has devastating unintended consequences for housing affordability.

The solution is also simple: DOE standards must be subject to the HUD Code process, with HUD having final authority to issue such energy standards. And, HUD should follow the guidance of its experts on the subject, the MHCC – a body that has already found serious fault with the proposed DOE standards.

The MHCSS gives HUD jurisdiction over the construction requirements for manufactured housing construction and it clearly states that energy conservation standards "shall take into consideration the design and factory construction techniques of manufactured homes and shall provide for alternative practices that result in net estimated energy consumption equal to or less than the specified standards."[2] The HUD Code regulations require these energy efficiency construction methods to be "within the limits of reasonable economics."[3] However, the jurisdictional lines were blurred in 2007 when a rider was attached to the Energy Independence and Security Act of 2007 (EISA). In that rider, the DOE was directed to "establish standards for energy efficiency in manufactured housing."[4] This language had not been subject to congressional hearings and the House Financial Services Committee, which has jurisdiction over HUD and therefore the manufactured housing construction code, was not aware of this provision. The language contained in the EISA rider was poorly crafted and these flaws were exacerbated by the DOE's fundamental lack of understanding about the realities of factory-built home construction.

In fact, HUD's federal advisory committee, the MHCC, refused to recommend wholesale adoption of the DOE's rule into the HUD Code. When the MHCC considered the DOE energy standards last fall, it determined there was a failure by the DOE to consider the unique characteristics of manufactured home construction. The MHCC determined that "DOE circumvented the standards development process prescribed in EISA which requires cost justification and consultation with HUD." It also determined that "DOE provided an energy conservation standard which was based on site-built construction and applied it to a performance-based national code."

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[2] 54 U.S.C. § 5403(g)
[3] 24 C.F.R. § 3280.505(a)("The goal of the infiltration control criteria is to reduce heat loss/heat gain due to infiltration as much as possible without impinging on health and comfort and within the limits of reasonable economics.")
[4] 42 U.S.C. § 17071(a)(1).

The MHCC warned that: "If adopted as written, the final [DOE] rule would adversely impact the entire Manufactured Housing program and cost increases associated with compliance would reduce prospective purchasers (especially minorities and low-income consumers) from durable, safe, high quality and affordable housing."

Instead of adopting the DOE standard, the MHCC recommended vast improvements to energy efficiency standards for manufactured homes while tailoring these standards to the unique methods of factory-built construction and to the aim of preserving the affordability of the product. MHI strongly supports the MHCC's recommended revisions to the HUD Code to increase energy efficiency standards in a way that makes sense for affordable, factory-built construction.

MHI strongly encourages passage of H.R. 3327, which would reaffirm in statute that HUD, through the HUD Code, is the sole regulator of construction and safety standards for manufactured housing. This is absolutely essential for a functioning manufactured housing market because HUD has an established process by which to update the building code for manufactured housing. Unlike the process at HUD, the Department of Energy (DOE) issued these standards without engaging with relevant stakeholders. The result was a regulation based on a building code that is for site-built homes, which is where materials are taken to a construction site where the home is built. A construction code based on the site-built process does not apply to the construction methods of manufactured homes, which are assembled in a factory and then transported to the home site.

The unintended consequence of a second industry regulator implementing misguided standards that significantly diminish affordability for the most vulnerable low-income households can be readily corrected with passage of H.R. 3327. DOE's own analysis showed that its rule would increase costs for homebuyers without reciprocal energy savings. Even based on its flawed and overly-optimistic assumptions, DOE determined that its rule would result in an average cost increase of around $700 for a single-section home and $4,100 to $4,500 for a multi-section home. DOE's analysis hinged on purchase price, not the ability of a homeowner to obtain financing based on debt-to-income ratios and other factors. A cost-benefit analysis performed by MHI and provided to the DOE demonstrated that the DOE's rule would result in a net loss of up to $5,500 to a consumer for a single-section home and up to $6,800 for a multi-section home depending on the location. An economic study performed by international economic consulting firm, the Analysis Group, confirmed that when using updated cost figures, approximately 95% percent of manufactured home shipments would have a negative 10-year life cycle cost under the DOE's rule.

The DOE rule is a perfect example of how external ESG mandates distort markets and have unintended consequences that outweigh any potential benefit to consumers, businesses, and the environment. The DOE rule will increase cost of manufactured homes to the point of requiring thousands of low-income consumers to remain in older, less energy-efficient housing, and miss what for many may be their only opportunity to attain homeownership. Stated otherwise, the DOE's failed attempt at "E" came at the expense of "S" as it is socially unjust to put out of reach the ability to purchase a manufactured home. The MHCSS at HUD's direction does a better job at holistically promoting ESG principles. Under this mandate, the manufactured housing industry has and will continue to provide quality, energy-efficient homes at affordable prices to satisfy the critical need for affordable housing in the United States. Implementation of the DOE's rule will only increase the affordable housing shortage in the United States with no appreciable environmental benefit.

The right approach is established in the current HUD Code process where HUD is required to properly balance construction standards with homeownership affordability to ensure that manufactured homes remain an attainable source of homeownership for American families. Congress must reaffirm this process to ensure standards from other agencies that lack an understanding of the manufactured housing construction process do not limit the dream of homeownership.

HUD Should Intervene When Localities Place Restrictions on Manufactured Housing

Manufactured homes serve many housing needs in a wide range of communities from rural areas where housing alternatives are few and construction labor is scarce and/or costly, to higher-cost metropolitan areas as in-fill housing. However, restrictive zoning and land planning ordinances have a profound impact on the availability of manufactured housing.

Across the country, there are countless state and local zoning, planning, and development restrictions that either severely limit or outright prohibit the placement of a manufactured home. These practices harm those who could attain homeownership through manufactured housing. Examples of these discriminatory practices include:

1.) Outright Bans – Adoption of ordinances that eliminate or ban the placement of manufactured homes in cities, localities or municipalities.

2.) Zoning Barriers – Changing zoning laws after developers have purchased land to prevent the development of manufactured housing communities.

3.) Segregated Zoning – Banning manufactured homes as a "permitted use" in residential zones and segregating them into one special overlay zone in one area of the city. These areas are usually far away from essential services and/or the homes act as buffers to commercial zones.

4.) Lot Size Requirements – Requiring a certain number of acres for placement of a manufactured home on private land.

5.) Value Requirements – Setting an arbitrary and capricious value that a manufactured home must meet before it can be sited in a city, locality or municipality.

6.) Age Prohibitions – Prohibiting placement or movement of a home based upon its age.

7.) Contradictory Construction Requirements - Imposing site-built construction standards to HUD Code homes.

These examples reflect a growing trend whereby local jurisdictions adopt land planning ordinances and utilize code enforcement that excludes manufactured housing.

There are actions that HUD can take to improve the availability of manufactured housing in jurisdictions across the country. HUD has the statutory authority to prevent local jurisdictions from excluding manufactured homes through the "Manufactured Housing Improvement Act of 2000,"

which specifically states that when HUD construction and safety standards are in effect, a locality does not have authority to establish different standards. The statute explicitly states that this preemption should be "broadly and liberally construed" to avoid disparate local requirements. HUD has the authority and duty to pursue more vigorous enforcement of this provision, which clearly establishes federal supremacy for manufactured housing construction.

Due to lax enforcement of preemption by HUD, many localities use requirements that deviate from the HUD Code to accomplish an underlying objective of zoning out manufactured housing (or making it prohibitively expensive). To address this, HUD must strengthen preemption enforcement and must provide clearer, more transparent guidelines for compliance. Further, HUD must respond promptly and definitively whenever localities violate this provision. While HUD has pursued individual cases where local jurisdictions have introduced construction and safety standards that are not consistent with the HUD Code or have imposed zoning and planning requirements that exclude HUD-compliant manufactured homes, HUD must take on a much greater role in this effort. HUD has a statutory mandate to do so.

HUD should also issue an updated policy statement concerning federal preemption as its current statement has not been updated to reflect the Manufactured Housing Improvement Act of 2000. The current statement is from 1997 - "Statement of Policy 1997-1: State and Local Zoning Determinations Involving the HUD Code." Updating this statement would galvanize HUD's responsibility to facilitate the availability of affordable manufactured homes across the country.

Congress Should Remove the Chassis Requirement

The current definition of a "manufactured home" based on the "permanent chassis" is many decades old and reflects the origins of manufactured housing in the United States when these homes were "trailers." However, modern manufactured housing has little in common with a trailer. Instead, today's manufactured homes are indistinguishable from traditional site-built homes with the primary exception of the permanent chassis which is required only for transportation and can now be readily removed on site. But because the "permanent chassis" is part of the definition of a "manufactured home," the manufactured housing industry cannot remove the chassis from a manufactured home without changing the law.

If the permanent chassis requirement were removed, most manufactured homes would still be built and transported on a chassis, but the chassis could be removed on site and recycled after the home is permanently installed on a foundation. Among other benefits, removing the permanent chassis requirement would allow for manufactured homes to have a more desirable low-profile installation aesthetic, facilitate more multi-story HUD Code home designs, improve energy efficiency, reduce waste (most notably the heavy steel chassis that could be recycled), and overcome government zoning prohibitions that use the chassis requirement as a method for zoning manufactured housing out of their area.

Above all else, removing the chassis requirement would facilitate continued innovation that will lead to lower costs to consumers. Additionally, allowing manufacturers to construct homes that are designed to be removed from a permanent chassis would allow for more aesthetically pleasing

design option that could remove the decades-old "stigma" from manufactured housing and discriminatory zoning requirements based on that "stigma." Therefore, the removal of the permanent chassis requirement is a perfect example of how Congress can remove barriers to affordable housing.

Federal Policies Should Support Development and Preservation of Land-Lease Communities

There are more than 43,000 land-lease manufactured housing communities in the country with almost 4.3 million home sites. About one-third of the new manufactured homes built today are placed in these land-lease communities. Homeownership in land-lease communities is often less expensive than renting an apartment, providing an affordable form of homeownership to many Americans and their families.

Just as in other forms of housing, some policymakers have raised concerns about rising rents in manufactured home communities. The truth is that all forms of housing are seeing significant price hikes - and rent levels for leased land in manufactured home communities are rising at a lower overall rate than for rental housing units.

In fact, according to DataComp, the largest provider of manufactured home appraisals, inspections, and market data, the average site-rent increase in 2021 was approximately 3.6 percent. Average manufactured housing community rent increases are substantially below the increases experienced in other forms of housing.

Demand for living in land-lease communities continues to rise because of the financial and lifestyle benefits of owning a home. Consumers are attracted to well-maintained outdoor spaces and neighborhood amenities. Professional management of land-lease communities ensures that critically needed infrastructure like water, sewers, roadways are continuously updated to protect the homeowner's investment. Capital expenditures by professionally managed community operators continue to increase annually and at faster rates than rents.

U.S. Census and MHI data consistently show that residents of land-lease communities are highly satisfied and are likely to recommend living in manufactured housing communities to others. In fact, 90 percent of people living in manufactured housing communities are satisfied with their homes—95 percent in senior-only communities and 87 percent in all-age communities report satisfaction with their homes. These satisfaction rates show that, overwhelmingly, land-lease community owners are meeting their resident's expectations.

The federal government has much it can do to support these important and vibrant communities. Federal affordable housing policies should encourage capital investment into land-lease communities to build, update, and preserve land-lease communities.

One initiative Congress should consider is creating more flexibility with respect to tax incentives in Opportunity Zones for investments that build and preserve affordable manufactured home communities.

Another important Congressional action is for HUD to use its statutory discretion to make all community owners, including for-profits, eligible for the $200 million in the Fiscal Year 2023 T-HUD appropriations bill for grants and financing to preserve and revitalize manufactured housing communities. Grant programs like this should be awarded competitively to the best applicants and applications, that can do the most to preserve affordable manufactured homeownership.

Finally, Fannie Mae and Freddie Mac should continue and expand their commitment to financing manufactured housing communities. Through our National Communities Council (NCC), MHI was an early proactive participant in working with consumer groups and FHFA to develop balanced tenant protections for Duty to Serve for manufactured homeowners leasing the land on which the home was cited - that resulted in the tenant protection guidelines that the GSEs have in place today. These tenant protections include all of the basic consumer protections for such homeowners; efforts to go beyond this are unnecessary and would be self-defeating, since they could result in community owners deciding Fannie Mae and Freddie Mac loans are no longer viable for this purpose.

FHA Should Do More to Support Financing for Manufactured Housing.

The Federal Housing Administration (FHA) has a critical role in insuring mortgages for first-time, minority, and other underserved borrowers. Because of manufactured housing's affordability, FHA should do more to support financing for manufactured housing. We appreciate the Administration's recognition of the need to update the FHA programs for manufactured housing in its Housing Supply Action plan. Because of a lack of updates, FHA's mortgage insurance programs are not serving those seeking homeownership through manufactured housing. FHA's Title I program for personal property loans needs substantial reforms to restore its role in this sector and FHA's Title II program for real property loans needs updates so that FHA can better fulfill its mission of homeownership.

In 2022, zero manufactured home loans were insured by FHA's Title I program. And manufactured home loans only made up 4.3 percent of all new single-family loans insured by FHA's Title II program that same year. Several actions will remedy this situation. For the FHA Title I Program, FHA should consider these changes:

1. Align FHA manufactured home definitions with HUD Code definitions;
2. Allow an adequate loan origination fee;
3. Allow financing of closing costs; and
4. Align FHA Title I underwriting standards with Title II standards.

For the FHA Title II program, FHA should consider these changes:

1. Improve guidance for CrossMod homes to ensure accurate appraisals, as both Fannie Mae and Freddie Mac have already done;

2. Incorporate the HUD Code's model minimum installation standards;
3. Revise the requirements for manufactured homes in flood zones; and
4. Lift the prohibition against financing for relocated homes.

With these changes, FHA can better accomplish its goal of providing affordable homeownership for first-time, minority and other underserved borrowers.

Conclusion

MHI appreciates the opportunity to testify before the Committee about mandates that have created barriers to affordable housing. The industry is supportive of the MHCC's (HUD's federal advisory committee) recommendations to improve energy efficiency standards for our homes. Because HUD is our primary regulator and understands our construction process, the MHCC's approach would enhance environmental outcomes while eliminating the contradictions and feasibility issues created by the DOE rule, while preserving cost effectiveness for aspiring homeowners. The DOE's unfamiliarity with the manufactured housing construction process and lack of meaningful engagement with stakeholders most directly impacted demonstrates the dangers of mandates that sound laudable but can wind up undermining the best outcomes for American households – in this case by reducing the supply of high-quality, affordable, and energy-efficient housing options. We urge swift passage of H.R. 3327 to ensure HUD retains sole jurisdiction over implementation and enforcement of all construction standards for manufactured housing.

Thank you for your recognition that manufactured housing is an integral component to addressing the nation's affordable housing supply challenges. By ensuring HUD uses its authority to prevent localities from imposing barriers to placement of manufactured homes, ensuring that FHA does more to support financing for manufactured homes, supporting land lease communities, and removing the chassis requirement, this Subcommittee can help ensure that the innovations of manufactured housing are an essential part of HUD's work to help more Americans achieve quality homeownership at an attainable price. As the only national trade association that represents every segment of the factory-built housing industry, we look forward to working with you to support the 22 million people who live in manufactured homes today and the many more who are seeking attainable homeownership in a quality home.

APPENDIX – Photos

Testimony of Alicia Huey

On Behalf of the

National Association of Home Builders

Before the

House Financial Services Committee

Subcommittee on Housing and Insurance

Hearing on

"How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing"

July 14, 2023

Introduction

Chairman Davidson, Ranking Member Cleaver and members of the subcommittee, I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our views on how burdensome government regulations and mandates, promoted by government support for Environmental, Social and Corporate Governance (ESG) policies, impact our industry's ability to increase the production of quality, affordable housing. My name is Alicia Huey, and I am NAHB's 2023 Chairman of the Board of Directors and a custom home builder and developer from Birmingham, Ala.

NAHB represents more than 140,000 members who are involved in building single-family and multifamily housing, remodeling and other aspects of residential and light commercial construction. NAHB's members, most of whom build 10 or fewer homes per year, construct approximately 80% of all new housing in the United States each year.

Considerations of ESG have become more mainstream over the past few years as a way to assess the environmental and social risks faced by companies and direct investment strategies for major corporations, fiduciaries, and financiers. There currently is no federal framework for regulating ESG, yet a growing number of policies have been emerging over the past several years at the federal, state and local levels to do just that. Most of these policies focus on disclosure of ESG risks and risk mitigation, and most limit the requirements to the largest companies. The U.S. Securities and Exchange Commission, for example, requires public companies to disclose "material" financial risks and in March 2022, proposed amendments to the Securities Act of 1933 and the Securities and Exchange Act of 1934 that would require registrants to provide certain climate-related information in their registration statements and annual reports. In addition, many organizations voluntarily disclose their ESG risks to foster public trust and transparency and/or establish themselves as sustainable and/or socially responsible in the marketplace.

NAHB's typical members build 10 or fewer homes a year and operate as traditional small businesses, so most currently are not directly impacted by ESG investing decisions. However, as ESG considerations are given more credence in the various "whole of government" approaches to address climate change and other social issues, they are becoming increasingly relied upon to justify regulatory actions. As a result, government support of, and encouragement for, ESG policies are more and more likely to have a direct impact on housing production and affordability.

As ESG policies are implemented and mature over time, the nation's home builders are concerned about the far-reaching impacts and how we will be challenged to comply. ESG policies already have caused insurance companies to drop out of some areas and raise rates in others. Lenders are being urged to minimize the risks associated with their portfolios, causing concern they may cease lending in certain locations or increase their borrowing rates. Likewise, small businesses doing business with publicly traded companies may eventually be required to provide their ESG risk data to those larger companies. As supply chain woes continue to stifle residential construction projects across the nation, we worry that ESG disclosure requirements could further impede or prevent availability of needed building supplies and/or transportation to their required destinations.

Most of NAHB's small business members live in the communities in which they build. They are stewards of the environment, hire local workers, provide housing at a diversity of price points, run their businesses in responsible ways and make positive contributions to the social and economic fabric of their towns. But government regulations continue to make it more and more difficult for them to meet their goals and any ESG-related mandates will make providing affordable housing and running profitable businesses even more difficult. Small businesses are not equipped to deal with ESG paperwork and

reporting obligations or further delays to their projects. They are family-operated businesses that generally lack in-house counsel or compliance experts. Given the uncertainties surrounding risk disclosures, recordkeeping protocols and even the lack of standards measurement metrics, our members are concerned about future compliance requirements. Placing additional reporting obligations on an already tight regulatory regime and/or further limiting the availability of property insurance will add costs and inefficiencies to the home building process, delay closings and increase home prices and rents to home buyers, homeowners, and renters.

The nation is experiencing a housing affordability crisis and there already are significant challenges to addressing that concern. Now is not the time to create or support additional regulations that add more uncertainty, delays and costs to the home building process.

Housing Affordability and the Need for Additional Supply

Safe, decent and affordable housing provides fundamental benefits that are essential to the well-being of families, communities and the nation. For these reasons, housing affordability is NAHB's top advocacy issue. NAHB's research shows that housing affordability in the single-family market is at its lowest level since NAHB began tracking it on a consistent basis in 2012. According to the NAHB/Wells Fargo Housing Opportunity Index (HOI), just 45.6% of new and existing homes sold between the beginning of January and end of March 2023 were affordable to families earning the U.S. median income of $96,300[1]. Clearly, owning or renting a suitable home is increasingly out of financial reach for many households. According to Harvard's Joint Center for Housing Studies, in 2020, the nationwide share of cost-burdened households paying more than 30% of their incomes for housing stood at 30%. Moreover, 14% of all households were severely burdened and were spending more than one-half of their incomes for shelter[2].

As a nation, we can and must do better. All home buyers and renters in America should have a choice in securing safe, decent and affordable housing where they want to live. America's workforce families, including members of the armed forces, teachers and first responders, should be able to afford to live in homes or apartments in the communities they serve. NAHB strongly believes that increasing the inventory of new single-family and multifamily housing is key to improving housing affordability. However, the lack of housing supply is not the only factor impacting housing affordability. Government policies and regulations, including those put in place to support and promote ESG, are making it harder and harder for home builders and multifamily developers to build housing that is affordable.

Impact of Regulation on the Cost of Housing

Home building is subject to a wide array of regulatory costs that may be imposed by any combination of federal, state and local governments. These costs include those associated with complying with federal labor and environmental regulations, building codes and standards, local zoning ordinances, as well as fees imposed at different stages of the development and construction process. And these costs are not insignificant. An NAHB study on regulatory burdens shows that approximately 24% of the price of a typical newly-built single-family home is due to the broad set of regulatory burdens imposed by state, local and federal governments[3]. Moreover, between 2011 and 2016, such costs increased by 29%, faster than inflation and economic growth. Such burdens are high for apartment construction as well, as an

[1] https://www.nahb.org/news-and-economics/press-releases/2022/11/housing-affordability-falls-to-more-than-10-year-low-as-rising-interest-rates-take-a-toll
[2] https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2022.pdf
[3] https://eyeonhousing.org/2021/05/regulation-now-accounts-for-93870-of-the-average-new-home-price/

updated joint study by NAHB and the National Multifamily Housing Council conducted in June 2022 found that up to 41% of apartment development costs are due to regulations[4].

Regulatory costs have a direct and negative effect on housing affordability. NAHB's "Priced Out" Estimates for 2022 show that 117,932 households would be priced out of the housing market if the median U.S. new home price rises by $1,000.[5] As a benchmark, 87.5 million households (roughly 69% of all U.S. households) are not able to afford a median-priced new home. Similarly, an analysis using 2018 data found that a $1,000 increase in the cost of building a new rental unit will price out almost 20,000 renters for that apartment.[6]

NAHB Urges Action

Increased regulations, building code requirements, mortgage interest rates, and insurance premiums for homeowners' coverage, among other things, add significant costs to homes and further harm housing affordability. To mitigate this housing affordability crisis, NAHB continues to urge both Congress and the Administration to address the primary factors limiting builders' ability to increase the supply and affordability of new housing. These factors can be summarized as the five L's: lack of labor, lack of lots and land, lumber and materials shortages, lending challenges, and finally laws and regulatory burdens. While there is no silver bullet, rather than further incentivizing and supporting ESG policies that unnecessarily add to the regulatory burdens home builders already face and further impede the ability of our industry to increase the supply of affordable housing nationwide, NAHB urges Congress to pass legislation to alleviate these regulatory burdens and let the market forces determine how best to incorporate ESG considerations into the residential sector.

Government Mandates and Regulations Impacting the Home Building Industry

Residential construction is one of the most heavily regulated industries in the country. The time and cost invested in complying with regulations impacts a business's ability to thrive and grow; they also can negatively affect housing affordability and stifle economic development. As noted above, in these challenging economic times, the decrease in housing production and increase in price clearly indicate the need to reduce the regulatory burden on the housing industry.

Residential construction is one of the few industries in which a government-issued permit typically is required for each unit of production. Additional rules create a constricting web of regulatory requirements that affect every aspect of the land development and home building process and add substantially to the cost of construction. The breadth of these regulations is largely invisible to the home buyer, the public, and even the regulators themselves. Nevertheless, they have a profound impact on housing affordability and prevent many families from becoming homeowners.

While onerous building regulations historically have stemmed from legislation such as the Clean Water Act, the Endangered Species Act, the Energy Policy Act, the Occupational Safety and Health Act, the Fair Housing Act, and the Safe Drinking Water Act, government regulators are increasingly citing the need for new or revised regulations to address ESG considerations. Indeed, this Administration's focus on climate

[4] https://www.nahb.org/news-and-economics/press-releases/2022/06/new-research-shows-regulations-account-for-40-point-6-percent-of-apartment-development-costs

[5] https://www.nahb.org/-/media/05E9E223D0514B56B56F798CAA9EBB34.ashx .

[6] Based on the 2018 median rent of $2,189, a $1000 increase in the cost of building a new apartment unit would price out 19,617 renters.

change, social justice, energy efficiency and labor unions all fit within the broader parameters of ESG. Overreliance on ESG factors often ignores the central tenets of consumer choice, market needs and project feasibility, key considerations that are central to small home building businesses.

While many actions have been taken over the past few years to insert ESG considerations into federal policies and regulation, the following are particularly concerning to home builders:

- Building Energy Codes

Recent legislation uses the lure of federal dollars to pressure state and local governments into implementing unnecessary ESG policies and regulations, which will drive up housing prices across the country. The Inflation Reduction Act provides $1 billion in grants for state and local governments to adopt costly and restrictive energy codes, such as the 2021 International Energy Conservation Code (IECC). While NAHB supports the adoption of cost-effective, modern energy codes, we oppose any federal funding that prohibits jurisdictions from adopting amendments to the energy code to accommodate local conditions and address cost-effectiveness concerns.

Forcing the adoption of costly and restrictive energy codes to qualify for these grants will exacerbate the current housing affordability crisis and limit energy choice for consumers. Adoption of the 2021 IECC can add as much as $31,000 to the price of a new home yet can take as long as 90 years for the homeowners to see a payback from this investment. Implementation of these grants will result in fewer families being able to achieve the American dream of homeownership.

It is not just the lure of federal funding that is being used to force the implementation of costly and unnecessary energy codes, as the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA) are considering requiring the 2021 IECC for virtually all new construction supported by HUD and USDA. Such mandates will have an especially negative impact on historically underserved communities and first-time homebuyers, two of the very groups these agencies seek to support and who are highly sensitive to price fluctuations at the low- to mid-price range of the housing market. Builders also face major hurdles under this proposal, including finding qualified inspectors and complying with a patchwork of building standards.

- Electrification and Gas Stoves

Concerns about the impacts of climate change have compelled policymakers at all levels to look for ways to cut greenhouse gas emissions (GHG) across all sectors of the U.S. economy. While there are many ways to achieve GHG reductions, many communities have pointed to ESG policies to gain support to pass laws or ordinances that effectively ban the use of natural gas and propane within new construction and existing homes. These efforts are concerning for several reasons. First, because new construction is already significantly more energy efficient than the existing housing stock, any GHG emissions reductions gained through electrifying new construction would be far less than reductions gained by improving the energy efficiency of existing homes.

Second, although electrification may provide benefits in certain applications, electrification mandates can be costly and infeasible in some areas of the country and create challenges for builders, homeowners and consumers. For example, due to performance limitations of electric heat pumps in colder climates, the continued use of fossil fuel may be the only feasible option in certain circumstances and locations. Likewise, because electrification can result in both increased first costs and higher utility bills, electrification may place additional burdens on the consumer. A study conducted by the Home Innovation Research Labs in 2021 found that the additional up-front cost to build an all-electric house (as compared to a house with natural gas equipment and appliances)

ranged from $3,832-$15,100 depending on climate zone.[7] Importantly, these estimates do not include fees for upgrading electric service or providing community electric infrastructure, which can be substantial.

Finally, electrification policies can adversely impact consumer choice. The recent efforts by federal agencies to consider limiting access to gas stoves ignore consumer preferences and pocketbooks. As home builders, we believe our customers have a right to choose the appliances and energy sources used in their homes. Over 187 million Americans currently use natural gas appliances, saving them an average of $1,068 each year. Gas stoves are used in nearly 40 million homes nationwide and have proven to be a safe, efficient and affordable appliance choice for families for well over a century. The current push to regulate gas stoves will result in negligible health, safety and energy outcomes, but will drastically limit the ability of homeowners to install and use gas stoves in their homes and enjoy the cost savings that come with their use in some areas of the country.

- Transformer Standards

The Department of Energy (DOE) has proposed a new rule to increase energy efficiency standards for distribution transformers. The timing of this proposed rule could not be worse and is certain to make an already bad situation worse. If finalized as proposed, manufacturers will be forced to retool production lines to produce new transformers instead of addressing the historic backlog that is hampering development across the country.

Transformers are an essential part of the electrical grid bringing power to homes and businesses. Homes cannot be sold unless a transformer is installed and working, and power is being sent to the home. For the past few years, lead times to obtain transformers have remained stubbornly long, ranging anywhere from 18 to 24 months as global supply chains continue to heal in the wake of the COVID-19 pandemic. Delays in transformer availability and installation are completely halting home building projects in many areas and frustrating recovery efforts in those affected by natural disasters. In addition, for the home building business, delays result in additional costs.

DOE's proposed rule is particularly troubling because it would dictate that manufacturers increase the efficiency of distribution transformers by a mere one-tenth of a percentage point even though the agency *already* mandates distribution transformers be manufactured to incredibly high efficiency standards. Importantly, due to the intricate ways transformers are designed and assembled, increasing their efficiency even by a fraction of a percentage point could add months to an already lengthy order-cycle. Additionally, the proposed rule would require manufacturers to transition to a different type of steel, which is largely untested, less flexible and more expensive. The existing supply of this alternative steel is very limited and mostly foreign-sourced.

Energy efficiency standards play an important role in reaching decarbonization benchmarks while transitioning our nation to a clean and increasingly electrified economy. However, as proposed, the rule would delay the realization of these benefits while at the same time exacerbating the current distribution transformer shortage crisis at the expense of housing affordability.

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[7] Home Innovation Research Labs, *Cost and Other Implications of Electrification Policies on Residential Construction*, February 2021. https://www.nahb.org/-/media/NAHB/nahb-community/docs/committees/construction-codes-and-standards-committee/home-innovation-electrification-report-2021.pdf

- Waters of the U.S.

Home builders and developers remain in a state of regulatory uncertainty regarding the scope of federal jurisdiction over waters of the United States (WOTUS) under the Clean Water Act (CWA). On May 25, 2023, the Supreme Court ruled in *Sackett v. Environmental Protection Agency (EPA)* that the test the agencies were using to define federal authority was too broad and therefore was impermissible. Since then, the U.S. Army Corps of Engineers (Corps) has simply stopped processing requests for approved jurisdictional determinations (AJDs) while the districts await guidance from Corps' headquarters on how to proceed. Halting AJDs leads to permitting delays and places another barrier on the nation's home builders' ability to provide safe, decent and affordable housing.

The agencies have stated they will provide a new regulatory definition of WOTUS by September 1, 2023, but until then, do not intend to lift the nationwide suspension of AJDs or provide any interim guidance. Land acquisition, permit processing and home building cannot be paused until September 1; landowners desperately need the agencies to issue interim guidance.

A healthy housing market is critical to a strong and vibrant U.S. economy, and it is contingent upon EPA and the Corps moving forward quickly and affirmatively to clarify the scope of federal CWA jurisdiction and restart the Section 404 approval processes. *Sackett* established clear, bright lines concerning which aquatic features are not jurisdictional under the CWA. Home builders and the construction industry desperately need clear rules to protect our nation's waterways and environment while allowing the economy to move forward.

- Intersection of the National Flood Insurance Program and the Endangered Species Act

Home builders and developers in California recently learned that the Federal Emergency Management Agency (FEMA) would suspend its issuance of letters of floodplain map revision based on fill under the National Flood Insurance Program (NFIP) across 38 counties in California on July 1, 2023. This suspension impacts countless residential construction, transportation infrastructure, and other planned activities occurring within areas mapped by FEMA as being within the 100-year floodplain and potentially puts at risk tens of thousands of new housing units. For example, NAHB members from the greater San Francisco Bay area reported over 6,400 planned single-family homes, as well as nearly 800 affordable housing units, that would be impacted. While suspending aspects of the floodplain mapping program does not prohibit NAHB members from building new residential units, even a temporary suspension of FEMA's floodplain mapping can have significant economic impacts upon home builders, prospective homebuyers and renters alike.

FEMA's decision to suspend processing certain map change requests is the result of a confidential legal settlement between FEMA and environmental advocates who claimed that the simple act of revising floodplain maps negatively impacts federally protected species or their designated critical habitat under the Endangered Species Act (ESA). NAHB disagrees. FEMA has nationwide policy that requires individuals seeking these revisions to first provide FEMA with documentation that their planned activity either has no impact upon endangered species or they have already met the necessary ESA requirements. That should be sufficient to satisfy any landowners' ESA obligations.

What makes this issue even more troubling is that FEMA has publicly acknowledged this will be a multiyear suspension while FEMA "consults" with the U.S. Fish and Wildlife Service (USFWS) and the National Marine Fisheries Services (NFMS). A similar process in Washington State took over six years to complete, while in neighboring Oregon, over a decade has passed since FEMA initiated ESA consultation. Importantly, unlike what is occurring in California, FEMA did not suspend the

processing of requests in Oregon or Washington or make any changes to the NFIP while it was engaged in the ESA consultation process.

Requiring home buyers to purchase flood insurance for a home purposefully built out of the flood zone will have significant economic impacts. Requiring these home buyers to buy insurance when they do not need it only puts the American Dream of owning a home further out of touch.

- Rent Control

NAHB multifamily members are apartment builders, owners and managers who generally operate small businesses. They strive to provide quality, well-maintained and well-managed apartment communities, but doing so is becoming more difficult due to the growing number of ESG-related federal proposals and mandates, such as those included in the White House Blueprint for a Renters Bill of Rights,[8] which are directed at the rental and management policies of privately-owned conventional apartments.

Many of these proposals, particularly with respect to eviction diversion programs, are intended to extend temporary measures implemented during the COVID-19 pandemic. While many of the initiatives proposed in the blueprint are still under consideration and have not been implemented at this time, nevertheless, NAHB is gravely concerned that federal intervention -- either directly by statute/regulation or indirectly through pressure on the Government Sponsored Enterprises to adopt specific lease terms or impose various controls on rents and/or fees, eviction proceedings and tenant screening or federal "source of income protection" laws -- will have negative unintended consequences that discourage private sector participation in the conventional rental market.

Apartment owners and managers already are subject to a myriad of tenant protection and fair housing statutes, regulations, administrative policies and case law from all levels of government; additional federal rent and management policy restrictions on private, conventional apartment operations are unnecessary, unwise, and may also jeopardize the financial safety and soundness of the properties.

For example, multifamily properties are underwritten to operate off of the rents. Rent control policies, including those that would cap the percentage of annual rent increases, create disincentives to new supply and insurmountable hurdles to keep pace with operating and maintenance costs. Because such government policies are so disruptive, builders avoid working in jurisdictions with rent control policies in place.[9]

- Property/Casualty Insurance

Due to increasing perceived risks and pressure to address ESG, among other reasons, many private insurance companies are denying the sale of new property and casualty insurance policies, declining to renew existing coverages, and/or drastically raising policy rates in certain states. To make matters

[8] White House Domestic Policy Council and National Economic Council, *Blueprint for a Renters Bill of Rights*, January 2023. https://www.whitehouse.gov/wp-content/uploads/2023/01/White-House-Blueprint-for-a-Renters-Bill-of-Rights.pdf

[9] Paul Emrath, National Association of Home Builders (NAHB) Caitlin Sugrue Walter, National Multifamily Housing Council (NMHC), *Regulation: 40.6 Percent of the Cost of a Multifamily Development*, June 9, 2022, page 4. (Accessed at special-study-regulation-40-percent-of-the-cost-of-multifamily-development-june-2022.pdf (nahb.org) 7/10/23).

worse, reinsurance companies are rapidly increasing the costs of insurance for insurance companies on all lines of coverage due to recent national and global disasters, burgeoning bureaucratic expenses and to make up for reduced participation. Taken together, it is becoming increasingly more difficult for both existing and potential new homeowners to secure available and affordable insurance, which is impacting the ability of our members to sell their homes.

Certain borrowers are required to obtain and maintain homeowners' insurance as a condition of their mortgages. The inability to purchase or maintain policies because of unaffordable rate hikes or insurance companies declining to renew policies is becoming a growing issue that is impacting housing affordability and the ability of many to become homeowners. Although insurance is regulated at the state level, NAHB believes the federal government has an obligation to ensure insurance is available and affordable in all areas of the country. Indeed, the Federal Insurance Office (FIO) within the U.S. Department of the Treasury is charged with monitoring all aspects of the insurance sector, including the extent to which underserved communities have access to affordable insurance products. Clearly, solving the insurance issue is an important and key aspect of addressing the housing affordability challenge.

Conclusion

Thank you, Chairman Davidson and Ranking Member Cleaver for convening this important hearing and allowing NAHB to share our views on how burdensome government regulations and mandates, promoted by government support for Environmental, Social and Corporate Governance (ESG) polices, would impact our industry's ability to increase the production of quality, affordable housing. NAHB stands ready to work with you and members of the subcommittee to achieve thoughtful, effective policies to address these concerns and expand the availability of affordable housing for all Americans.

SUBMITTED STATEMENT OF
JERRY THEODOROU
DIRECTOR, FINANCE, INSURANCE AND TRADE
R STREET INSTITUTE

BEFORE THE
HOUSING AND INSURANCE SUBCOMMITTEE
FINANCIAL SERVICES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON
How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing

JULY 14, 2023

How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing

Chairman Davidson, Ranking Member Cleaver and members of the Subcommittee:

Thank you for holding today's hearing on "How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing," and for the invitation to testify. My name is Jerry Theodorou. I am the director of the R Street Institute's (R Street) Finance, Insurance and Trade program. I have worked as an analyst of the insurance industry for 15 years, both in my present position at R Street, and earlier at Conning, an asset management and insurance research firm. My main area of expertise within the broader insurance industry is property and casualty insurance. My research, publications, public presentations and congressional testimony focus on the drivers of insurer performance, and the impact of market forces and external drivers on insurers, policyholders and the economy.

Today's hearing is timely because environmental, social and corporate governance (ESG) factors have the capacity to influence insurers' performance, and by extension the availability and cost of insurance for consumers and businesses. Government mandates impacting the insurance industry destabilize insurance markets, leading to limited choice for consumers and businesses, and create higher costs. The imposition of ESG-related mandates, albeit well-intentioned, limit choice, reduce competition and drive up prices.

In some ways, discussion about how ESG factors impact the industry may be considered moot or unnecessary. Taking ESG considerations into account in insurance coverage and investment decisions is not new. It was evident well before ESG became an established concept in the 2000s. It is an element of sound risk management, and the insurance industry is fundamentally about managing risk. Such industry-led approaches to ESG are generally not a concern. The problem is when government imposes its perspective on ESG through mandates on the private sector.

Each of the three elements of ESG is familiar to insurers. On the "E" of ESG, insurance companies have been, and continue to pay, for losses caused by weather and climate catastrophes. This is a large part of what they are in business to do. In 2022, insurers paid out $98 billion to policyholders who experienced U.S. catastrophe losses.[1] Insurers are the financial first responders on the front lines making loss payments to policyholders. These loss payments enable policyholders' financial recovery in the wake of damage from catastrophes. Regarding the "S" of ESG, insurers, like all companies, are exposed to fines and penalties for transgressing state and federal laws barring discrimination, harassment and hostile work environments. On the "G" of ESG, insurers are subjected to rigorous governance oversight because they are not regulated by any one regulatory body—insurance is regulated at the state level by insurance commissioners. Insurance regulation departments conduct regular audits of insurers operating in their state. Insurers' governance is thus examined by multiple sets of eyes.

Adverse Impact of Government Mandates on Insurance

Among the ways government or regulatory mandates create adverse consequences, with higher costs ultimately borne by consumers, are government monopolies on certain insurance products and intervention in how insurers are allowed to calculate rates and premiums. For example, workers' compensation insurance, which is required, is a monopoly in four states—Ohio, North Dakota, Washington and Wyoming.[2] The prohibition against private insurers operating in these states means that insurance buyers are unable to choose policies based on coverage and price, as they are in other states.

In North Carolina, there is a rate bureau which controls the promulgation of insurance rates for several lines of business. North Carolina is the last state to continue to have a rate bureau responsible for calculating rates insurers can use. The North Carolina Rate Bureau has been

[1] "Facts and Statistics: U.S. catastrophes," Insurance Information Institute, last accessed July 11, 2023. https://www.iii.org/fact-statistic/facts-statistics-us-catastrophes.
[2] "Monopolistic state funds," International Risk Management Institute, Inc., last accessed July 11, 2023. https://www.irmi.com/term/insurance-definitions/monopolistic-state-funds.

compared to a cartel because insurance companies in the state set and use the bureau rates, depriving insurance buyers of the opportunity of broad choice.[3]

In states where the insurance commissioner is elected, rather than appointed by the governor, commissioners may be more likely to pursue populist agendas. An example is Washington State, where the insurance commissioner has served for 23 years. In recent years, Washington State was a driving force in a failed broader effort to prevent insurance companies from examining a broad panoply of factors relating to loss propensity in their ratemaking process.[4]

California is an example of a state where the heavy hand of government regulation has disrupted the insurance market in numerous ways due to regulators intervening heavily in insurance pricing decisions. The California Department of Insurance ties insurers' hands in three ways.[5] It prohibits insurers from pricing prospectively by taking into account the output of climate models.[6] It prohibits insurers from incorporating the cost of reinsurance into their ratemaking.[7] And finally, it permits public "intervenors" to challenge requests for rate increases greater than 7 percent.[8] As a result of these restrictive regulations, many national insurers have curtailed their California business writing.[9] Even Farmers Insurance, founded and headquartered in California, announced in July 2023 that it would no longer write new homeowners business in California.[10]

R Street has published a regular series of studies on the efficiency of insurance regulation in all states.[11] The study presents a detailed evaluation of the effectiveness of each state's regulation of

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[3] R. J. Lehmann, "Breaking up North Carolina's auto insurance cartel," *Real Solutions*, March 12, 2013. https://www.rstreet.org/commentary/breaking-up-north-carolinas-auto-insurance-cartel.
[4] Rachel La Corte, "Washington judge overturns insurance rate credit scoring ban," *The Seattle Times*, July 29, 2022. https://www.seattletimes.com/seattle-news/washington-judge-overturns-new-insurance-rate-rule.
[5] Steven Greenhut, "California's Insurance Market Is Burning Down," *The American Spectator*, May 31, 2023. https://spectator.org/californias-insurance-market-is-burning-down.
[6] Ibid.
[7] Ibid.
[8] Ibid.
[9] Breanne Deppisch, "Home insurers pull out of California thanks to wildfires and state regulations," *Washington Examiner*, June 1, 2023. https://www.washingtonexaminer.com/policy/energy-environment/insurers-pull-out-california-wildfires-regulations.
[10] Matthew Kupfer, "After State Farm's and Allstate's Exits, Farmers Insurance Sets Limits in California," *The San Francisco Standard*, July 7, 2023. https://sfstandard.com/2023/07/07/farmers-insurance-state-farm-allstate-california.
[11] Jerry Theodorou, "2022 Insurance Regulation Report Card," *R Street Policy Study* No. 272, December 2022. https://www.rstreet.org/wp-content/uploads/2023/01/r-street-policy-study-no-272-REVD.pdf.

insurance in seven key categories. It synthesizes those category evaluations by offering a "report card" grade for each state for analysis and comparison purposes. In the 10 editions of this study published since 2012, we have found that in states with less intrusive intervention in the functioning of the insurance market, the market is more competitive, and insurers have more choice. States graded "A" or "A+" in our latest report included Arizona, Kentucky, Indiana, Nevada, South Dakota and Virginia.

If government-mandated ESG considerations require insurers to insure certain risks or require them to invest in certain firms, the market is disrupted. When such government intervention prevents insurers from insuring certain risks or investing in certain firms, insurers have less power, and the market is disrupted in ways that ultimately lead to higher costs for insurance buyers.

Negative Consequences of Government Mandates

There are three main ways the insurance industry may be affected by ESG considerations:

1. Availability of insurance coverage may be reduced
2. Cost of available insurance protection may rise
3. Insurers' investment portfolios may underperform

Examples of potential ESG-related impacts on insurance cost includes insurers announcing they will not underwrite risks related to construction and operation of new coal-fired plants.[12] If other insurers adopt this policy, coal-fired plants would have to obtain coverage from the excess and surplus lines insurance marketplace, where insurance premiums are higher.

The property and casualty insurance industry holds $1.2 trillion in long-term bonds, amounting to close to half its $2.7 trillion in total assets.[13] The life insurance industry holds an additional $3.4 trillion in bonds, and $7.8 trillion in total assets.[14] Property and casualty and life insurers

[12] "Chubb Coal Policy," Chubb Group of Insurance Companies, last accessed July 11, 2023. https://about.chubb.com/citizenship/environment/coal-policy.html.
[13] S&P Market Intelligence/Capital IQ as of July 11, 2023.
[14] Ibid.

thus hold $4.6 trillion in bonds, almost 10 percent of the entire $51 trillion U.S. bond market.[15] The insurance industry is the second-largest holder of bonds; the pension fund industry is the first.[16] If ESG considerations compel investment in some issues or restrict insurers from investing in others, insurers' investment income—the largest generator of returns for insurers—could be compromised, leading insurers to raise rates and prices in order to meet shareholders' return expectations. The private sector may use ESG considerations in this regard as a risk management tool, which government should not inhibit. But if government prescribes specific forms of ESG management, it can undermine efficient risk management.[17]

Market Disruption

The operations of insurance companies are remarkably complex, but their core activity is to allocate their capital to the risk they assume. They charge premiums commensurate with risk magnitude. Past losses and claims payments are signals that help inform insurers about the magnitude of risk. If government bodies mandate rates or rating factors that insurance companies may or may not incorporate into their pricing, rate is decoupled from risk, weakening the signal and attenuating the ability of the market to function efficiently. If government intervention is extreme and insurers are coerced to price their policies with little regard for risk magnitude, they may abandon markets where this happens.

If ESG considerations or ESG investing drive insurers to make coverage, pricing or investment management decisions in ways contrary to sound risk management, insurers are less able to fulfill the three basic ways insurance plays a critical role in the economy. These are:

1. To pay claims to individual and business policyholders experiencing unexpected losses
2. To enable businesses to take risks they would not take on in the absence of insurance

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[15] Ibid.
[16] David Farris, "What is the Size of the US Bond Market?," CCB Financial, last accessed July 11, 2023. https://www.ccbfinancial.com/assets/publications/81014be3-d8fa-446f-a4c1-42bf19cb0cee.pdf.
[17] Philip Rossetti, "Public Input from the R Street Institute on Proposed Rule for 'The Enhancement and Standardization of Climate-Related Disclosures for Investors'," R Street Institute, June 2022. https://www.rstreet.org/wp-content/uploads/2022/06/2Final_SEC-Climate-Disclosure-Rule-Final-Philip-Rossetti-.pdf.

3. To purchase for their investment portfolios municipal, government and corporate bonds that support construction and maintenance of the country's and states' critical infrastructure, and respond to corporate America's need for capital

Because the insurance industry plays such a critical role in the economy, external forces that may disrupt the industry deserve serious consideration. Exploration of the potential impact of ESG on insurers is therefore a timely and important undertaking.

Defining ESG and ESG Investing

One reason that ESG-related discussions have become polarized and heated is because there is a lack of agreement on the actual definition of ESG. It is an umbrella term that has different meanings for different people. To many on the left, it is a vehicle to achieve environmental and social objectives.[18] To many on the right, it is a way for "woke" radical elements to drive a liberal agenda into the investment sphere.[19] Among pro-ESG proponents, there are further distinctions, such as whether ESG considerations enhance pecuniary returns. However, proponents also want to amplify values or impact-driven ESG approaches, where some pecuniary gain is given up to attain non-pecuniary objectives.[20]

The term "ESG investing" is sometimes used as an alternative to ESG.[21] "ESG investing" is, however, also a fraught term that needs to be defined. It suggests that ESG is an investment methodology. Investment managers typically follow one of two main methodologies in selecting stocks. Fundamental analysis focuses on value by looking at financial metrics, such as price-to-earnings ratio, price-to-book ratios and debt ratios. Technical analysis, by contrast, focuses on

[18] Laura Tomasko et al., "Strategies for Advancing Impact Investing through Public Policy: A Guide for Advocates and Field Leaders," Urban Institute, January 2021. https://www.urban.org/sites/default/files/publication/103535/strategies-for-advancing-impact-investing-through-public-policy-a-guide-for-advocates-and-field-leaders.pdf.
[19] Michael Copley, "How ESG investing got tangled up in culture wars," National Public Radio, Sept. 12, 2022. https://www.npr.org/2022/09/12/1121976216/esg-explained.
[20] Sarah E. Fortt et al., "DOL Final Rule on ESG Factors to Take Effect February 1, 2023," Latham & Watkins *Client Alert Commentary* No. 3058 (Jan. 24, 2023). https://www.lw.com/admin/upload/SiteAttachments/Alert%203058.pdf.
[21] Rossetti. https://www.rstreet.org/wp-content/uploads/2022/06/2Final_SEC-Climate-Disclosure-Rule-Final-Philip-Rossetti-.pdf.

share price movement, looking at charts of stock performance to identify signs or triggers for future price movement and opportunities to buy or sell. If one defines "ESG investing" as making investment choices based on the environmental impact of the investment at the expense of looking at other factors, ESG investing is not new, but is just a nuanced term for sustainable investing or socially responsible investing—which results in putting a premium on attaining social ends.

According to rating agency Standard & Poor's, ESG investing does not advance attainment of social ends at the expense of returns.[22] It recognizes that there may be material risk factors related to companies' ESG practices that may affect long-term performance. Defined thus, investment managers do not violate their fiduciary responsibilities of care, loyalty and oversight. To be sure, if investment managers were to ignore material ESG factors in their investment decisions, they would be derelict in failing to fulfill their fiduciary duties.

Unintended Consequences

Today's heightened interest in ESG has led to the mushrooming of a cottage industry providing ESG consulting services, ESG ratings assigned to individual companies, and categorization of companies as either "brown" or "green." Brown companies generate high levels of greenhouse gas emissions, and green companies produce low levels of greenhouse gas emissions. A recent study by scholars at Boston University and Yale University explored the impact of investing in green, rather than brown companies.[23] It found that solely investing in green firms rather than brown firms does not lead to environmental benefit. The greenest firms are mainly services firms, such as insurance companies, which do not leave a notable carbon footprint, and have virtually no greenhouse emissions. The fact that SVB Bank, which failed in March 2023, had a

[22] "What is the difference between ESG investing and socially responsible investing?," Standard & Poor's Global, Feb. 25, 2020. https://www.spglobal.com/en/research-insights/articles/what-is-the-difference-between-esg-investing-and-socially-responsible-investing.

[23] Samuel M. Hartzmark and Kelly Shu, "Counterproductive Sustainable Investing: The Impact Elasticity of Brown and Green Firms," *Social Science Research Network*, July 5, 2023. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4359282.

high ESG rating, calls into question the value of such scores.[24] The Boston/Yale study found that there is much more environmental benefit in making brown firms greener than attempting to make green firms greener. Other studies have found that diverting investments from brown companies to green companies results in green companies having higher value, but lower returns.[25] And importantly, depriving brown firms of investment reduces brown firms' ability to develop new sustainable technologies.[26]

Pro-ESG versus Anti-ESG

The discussions and debates surrounding ESG issues have led to polarization of positions, with both sides adopting extreme views. In addition to extreme positions, there is a spectrum with varying degrees of support or opposition to ESG investing.[27] Ardent pro-ESG proponents are found in radical environmental circles. At this end of the spectrum, one group maintains we are in the middle of the "sixth mass extinction"—termed the Anthropocene extinction—caused by human activity, which will result in the extinction of a million species.[28] This group holds that failure to address environmental concerns immediately will lead to the extinction of humanity and other forms of life. At the other end, an extreme anti-ESG position that made its way into a company's proxy statement maintains that the World Economic Forum, an affiliate of the company, "openly advocates for transhumanism, abolishing private property, eating bugs, social credit systems, the great Reset, and a host of other blatantly Orwellian objectives."[29]

The irony of the polarization of both positions, is that, if pursued, will lead to the opposite of what they seek to accomplish. The extreme pro-ESG position leads to the crippling of firms'

[24] Alastair Marsh and Saijel Kishan, "SVB Exposes 'Lazy' ESG Funds as Hundreds Bet on Doomed Bank," Bloomberg, March 14, 2023. https://www.bloomberg.com/news/articles/2023-03-14/svb-exposes-lazy-esg-funds-as-hundreds-bought-into-doomed-bank.
[25] Ľuboš Pástor et al., "Dissecting green returns," *Journal of Financial Economics* 146:2 (November 2022), pp. 403-424. https://www.sciencedirect.com/science/article/abs/pii/S0304405X22001672.
[26] Ibid.
[27] "Navigating State Regulation of ESG Investments," Ropes & Gray, last accessed July 11, 2023. https://www.ropesgray.com/en/navigating-state-regulation-of-esg.
[28] "Extinction Rebellion – Why Rebel?," Extinction Rebellion, last accessed July 11, 2023. https://rebellion.global/why-rebel.
[29] "Notice of 2023 Annual Meeting of Stockholders and Proxy Statement," Alphabet, June 2, 2023. https://abc.xyz/assets/1e/1f/796609564a91ad9ab98328ec44b0/2023-alphabet-proxy-statement.pdf.

ability to attain desired climate goals. The handicapping of investment managers' ability to consider ESG factors in their investment decisions leads to lower investment returns.

Anti-ESG in the States

Several states have adopted anti-ESG legislation, including Texas and Florida. In Texas, financial managers are prohibited from considering ESG policies when making investment decisions.[30] The Texas law requires the Texas Comptroller to develop and maintain a "blacklist" of financial entities that boycott fossil fuel companies.[31] In Florida, a bill bars state officials from investing public money to promote ESG goals, and prohibits ESG bond sales.[32]

Further, in May 2023, 23 state attorneys general wrote to members of the Net-Zero Insurance Alliance, a coalition of insurers, questioning the legality of their "commitments to collaborate with other insurers and asset owners in order to advance an activist climate agenda."[33]

Conclusion

Government mandates on insurers, whether ESG-related or not, introduce coercive or restrictive controls on insurers. Mandates erode choice and competition and inflate cost. Both extremes of the ESG debate distort insurance markets and can generate pressure to raise insurance rates. A hard position advocating attainment of non-pecuniary goals at the expense of insurer profitability dents returns, leading to higher insurance premiums. A hard anti-ESG position prevents insurers' investment managers from being cognizant of material risks to insurers' financial health. Whether insurers' investment managers follow pro-ESG or anti-ESG frameworks does not dilute their fiduciary duty to make investment decisions in the best interests of insurers. Mandates in

[30] "Texas Anti-ESG Legislation Targets Insurers and Pensions," Cobb & Counsel, April 12, 2023. https://cobbxcounsel.com/2023/04/texas-anti-esg-legislation-targets-insurers-and-pensions.
[31] Ibid.
[32] Isla Binnie and Ross Kerber, "DeSantis signs sweeping anti-ESG legislation in Florida," Reuters, May 3, 2023. https://www.reuters.com/business/sustainable-business/desantis-signs-sweeping-anti-esg-legislation-florida-2023-05-02/#:~:text=May%202%20(Reuters)%20%2D%20Florida,and%20prohibiting%20ESG%20bond%20sales.
[33] Sean D. Reyes et al., "Letter to Net-Zero Insurance Alliance," *Property Insurance Coverage Law Blog*, May 15, 2023. https://www.propertyinsurancecoveragelaw.com/files/2023/05/2023-05-15-NZIA-Letter.pdf.

insurance, including ESG-related mandates, militate against competitive markets and stable pricing environments.

Thank you for holding this hearing, and thank you for your consideration of my views. I look forward to any questions you may have.

Testimony of Caroline Nagy
Senior Policy Counsel for Housing, Corporate Power, and Climate Justice
Americans for Financial Reform

Before the U.S. Housing Financial Services Housing and Insurance Subcommittee
"How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing"
Friday, July 14, 2023 at 9 am ET

Chairman Davidson, Ranking Member Cleaver, and members of the committee, thank you for the opportunity to present testimony on behalf of my organization, Americans for Financial Reform. We are a nonpartisan and nonprofit coalition of more than 200 civil rights, consumer, labor, business, investor, faith-based, and civic and community groups. Formed in the wake of the 2008 crisis, we are working to lay the foundation for a strong, stable, and ethical financial system – one that serves the economy and the nation as a whole.

Our converging housing and climate change crises are taking a tremendous toll on everyday working people, who are facing increasingly unaffordable housing and insurance costs. Following years of heavy losses from climate-exacerbated hurricanes, fires, floods, and other natural disasters, insurers in states across the country are raising rates and pulling out of markets altogether. Just this week, Farmers Insurance announced that it will pull out of Florida, making it the latest of many insurance companies to do so within the last year.[1] In fact, 15 Florida property insurers have become insolvent since 2020, and at least 400,000 Floridians lost access to property insurance in 2022 alone.[2] In Louisiana, 11 insurers have gone bankrupt in the last two years and 10 others have left the state.[3] California has also seen a number of insurers limit their underwriting in its market in recent months, including State Farm, among others. And this is just the beginning; the problem will continue to grow worse each year, each decade, until the climate crisis is mitigated.

This hearing comes at a time of an unprecedented housing unaffordability, eviction, and homelessness crisis. In 2021, the number of tenants with unaffordable rents reached an all-time

[1] Hannah Morse, Farmers Insurance is leaving its business in Florida, USA Today, July 12, 2023. Available at: https://www.usatoday.com/story/money/2023/07/11/farmers-insurance-leaving-florida-market/70403832007/
[2] Jack Sanner, Florida's Climate-Fueled Insurance Crisis, Boston University School of Law Review of Banking and Financial Law, May 17, 2023. Available at: https://www.bu.edu/rbfl/2023/05/17/floridas-climate-fueled-insurance-crisis/; Lori Rozsa and Erica Werner, Florida's Insurance Woes Could Make Hurricane Ian's Wrath Even Worse, Sept. 30, 2022. Available at: https://www.washingtonpost.com/climate-environment/2022/09/30/ian-florida-economy-insurance/
[3] Thomas Frank, Growing Storms Push Shrinking Louisiana Insurers Into Failure, E&E News, Nov. 22, 2022. Available at: https://www.eenews.net/articles/growing-storms-push-shrinking-la-insurers-into-failure/

high, with 49% of U.S. renters paying more than a third of their income on rent.[4] Median rents across the U.S. have surpassed $2,000 for the first time, and there is no longer a single state or county where a worker earning a full-time minimum wage salary can afford a modest two-bedroom apartment.[5] Although homeownership is still a goal for many renters, it is increasingly unattainable when high rents hamper their ability to save for a down payment. This is especially the case as home prices continue their meteoric ascent: the Federal Housing Finance Agency house price index hit an all-time high in June, pushing the American dream of homeownership further out of reach.[6] To afford a 20 percent down payment on a $436,800 home, the current median home sale price, a homebuyer would need $87,360, a sum that most American families simply do not have.

Property insurance costs and housing affordability are deeply interconnected. Purchasing insurance policies is one of the few actions individuals can take to protect their property from the effects of climate-driven natural disasters. Many Americans who own their home do not have a choice as to whether to purchase these policies, as their mortgage lenders require them to take out homeowner's insurance, and, depending on location, flood, wind, or fire policies. Fannie Mae and Freddie Mac also require borrowers to take out certain kinds of property insurance in order for their loans to be eligible for purchase. While renters are not required to take out these insurance policies directly, they contribute to insurance premiums indirectly by paying rent and relying on their landlord's ability to rebuild after a disaster. Therefore, the cost of insurance impacts a household's monthly housing costs and their ability to recover from damages following severe weather.

Factors Influencing Insurance Prices

The premise of today's hearing appears to be that ESG mandates are a major contributor to price increases in insurance. However, with the exception of the National Flood Insurance Program, insurance is regulated at the state, not federal, level, and our states are home to a broad diversity of political viewpoints. Some, like California, have adopted more stringent consumer protections such as limits on rate increases, while other states, like Florida, have passed anti-ESG laws. Yet, insurers are raising rates and withdrawing coverage in both of these states, so clearly ESG is not the main driver of insurance unaffordability.

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[4] Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing 2023. Available at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf, at 5-6

[5] National Low Income Housing Coalition, *The Gap: A Shortage of Affordable Rental Homes*, March 2023. Available at: https://nlihc.org/gap

[6] Logan Mohtashami, FHFA House Price Index hits an all-time high, HousingWire, May 30, 2023. Available at: https://www.housingwire.com/articles/fhfa-house-price-index-hits-an-all-time-high/

What, then, is behind these price increases?

Climate Change: Climate change is contributing to increasingly frequent and severe natural disasters worldwide, and the U.S. is not being spared.[7] The increase in physical damage caused in part by climate-exacerbated disasters has translated into massive, often unsustainable losses for insurers.[8] Climate change is, in effect, upending the risk calculus that our insurance system has been based on during decades of relatively stable conditions. Given the current turmoil in the insurance industry, it is increasingly clear that we cannot rely on private insurance alone to protect our homes from climate change, nor should we. This week, as I testify before you, my neighbors in upstate New York and Vermont are facing the heartbreaking loss of life and the devastation of homes, businesses, beloved local institutions, and infrastructure, all caused by an unusually severe rain storm. This follows the hottest June on record, and the record-setting prolonged heat wave that is currently inflicting misery on the southwest. Last month, you all saw this very House office building shrouded in wildfire smoke from the devastating Canadian wildfires that burned a greater area than in any previous year on record, even before wildfire season had begun.[9]

Rising Reinsurance Rates: Reinsurance rates for catastrophic property coverage have greatly increased in recent years. July reinsurance renewal costs have increased by 30 to 50 percent for U.S. policies that have previously faced claims for natural catastrophes.[10] The reinsurance market is global and unregulated, meaning that our federal and state governments have little to no control over reinsurance rates.

Unsustainable Land Use Practices: Too many states and localities continue to permit or even encourage new housing construction in flood-prone, fire-prone, or otherwise disaster-prone areas. While property owners living in these areas may have been able to easily secure insurance coverage in the past, insurers are increasingly pulling out of higher-risk areas. In the absence of sound land use policies, private insurers become the *de facto* regulator of new development. Difficult decisions regarding where we should build new housing, how to make it

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[7] IPCC, Climate Change 2022: Impacts, Adaptation and Vulnerability, available at: https://www.ipcc.ch/report/ar6/wg2/; https://www.ncei.noaa.gov/access/billions/

[8] Jack Sanner, Florida's Climate-Fueled Insurance Crisis, Boston University School of Law Review of Banking and Financial Law, May 17, 2023. Available at: https://www.bu.edu/rbfl/2023/05/17/floridas-climate-fueled-insurance-crisis/

[9] Somayeh Malekian, Emma Ogao, and Victoria Beaule, Canada marks worst wildfire season on record, July 1, 2023. Available at: https://abcnews.go.com/International/International/canada-marks-worst-wildfire-season-record/story?id=100474336

[10] Mika Pangilinan, US property catastrophe reinsurance rates surge, Insurance Business, July 5, 2023. Available at: https://www.insurancebusinessmag.com/us/news/breaking-news/us-property-catastrophe-reinsurance-rates-surge-451602.aspx#

safer and more affordable, and how to respond to climate-related disasters without rebuilding in unsafe areas should not be left in the hands of private industry. Rather, the federal government must work with states to develop comprehensive policies that intertwine our housing and climate needs, ensuring the course forward is dictated by the people, not just Wall Street and the insurance industry.

Factors Influencing Housing Prices

The federal government plays a much larger role in housing finance, with the Low-Income Housing Tax Credit providing essential financing for affordable housing development, and several government agencies participating in mortgage lending. Yet the vast majority of decisions regarding what housing can be built, where it can be built, and how it can be built are made at the state and local levels, resulting in a mixed landscape of consumer protections and tenant protections nationally. For example, Oregon has statewide limits on rent increases, while Florida prohibits localities from adopting any form of rent stabilization. Yet Florida, despite famously adopting numerous anti-ESG laws and regulations, is currently seeing the largest increase in housing rental costs in the nation, with rents rising 46 percent over the last three years.[11] So what is driving the increase in housing costs?

Affordable Housing Shortage: We have a severe, national shortage of homes that people with the lowest incomes can afford. Nationally, we need seven million homes that are affordable to Americans who live below the poverty line or earn below 30% of their area median income.[12] Unfortunately, we are losing what remains of our affordable housing stock at a rate faster than we can replace it due to rising rents and stagnant incomes. Many homes that were once affordable to lower-income people have seen their rental or purchase prices increase: in just three years (2019 to 2021), 36 states lost more than 10 percent of low-rent units and 14 states lost 15 percent.[13]

Unsustainable Land Use Practices: We desperately need new construction of affordable housing, yet it is illegal to build anything other than single-family housing in much of the U.S.[14]

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[11] Margaret Jackson, 10 States With The Highest Rent Increases, Yahoo Finance, July 7, 2023. Available at: https://finance.yahoo.com/news/10-states-highest-rent-increases-204102257.html

[12] National Low Income Housing Coalition. (2023). The Gap: A Shortage of Affordable Homes. Washington, DC. Available at: https://nlihc.org/gap

[13] Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing 2023. Available at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf

[14] Emily Badger And Quoctrung Bui, Cities Start to Question an American Ideal: A House With a Yard on Every Lot, New York Times, June 18, 2019. Available at: https://www.nytimes.com/interactive/2019/06/18/upshot/cities-across-america-question-single-family-zoning.html

While zoning reform is desperately needed to place affordable housing in communities that have historically rejected it, removing zoning barriers to new development alone will be insufficient to solve our housing shortage. Many lower-income Americans simply do not earn enough to pay rents that cover the cost of developing and maintaining housing in today's market.[15] Without tenant rights and protections, rents will continue to increase to unaffordable levels, resulting in the continued loss of affordable housing. Additionally, as discussed earlier, there are very good reasons to limit new development in climate risk-prone areas.

Corporate Profits: During the pandemic, corporate landlords seized the opportunity to consolidate their market share and have used inflation to hike rents and accumulate excessive profits on the backs of tenants.[16] Over the last few years, corporate landlords raked in record-breaking profits—even using algorithms to set high rents and evict tenants.[17] The real estate industry and corporate landlords have spent millions lobbying the federal government to stop national tenant protections and rent regulations. During the pandemic, the real estate industry spent more than $100 million lobbying against the eviction moratorium, with the National Association of Realtors (NAR) leading the push against the eviction moratorium and its extension.[18]

Private Equity: The rise of private equity and large investors in the housing market over the last decade poses another major challenge to housing affordability. These firms have increasingly consolidated their presence in all sectors of the housing market, from single family homes to rentals to manufactured homes. Multiple observers have found that private equity landlords tend to raise rents and fees, skimp on upkeep, and move aggressively to evict renters.[19]

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[15] Urban Institute, Affordable Housing: Does It Pencil Out?, accessed July 12, 2023, https://apps.urban.org/features/cost-of-affordable-housing/

[16] Accountable.US, America's Biggest Multifamily and Single-Family Landlords Continue to Reap Huge Profits and Take Advantage of Tenants, April 10 2023. Available at: https://accountable.us/wp-content/uploads/2023/04/2023-04-10-Updated-Research-On-Housing-Profiteering-FINAL.docx-1.pdf

[17] Julia Conley, Largest US Corporate Landlords Reap Huge Profits Amid Double-Digit Rent Hikes, Common Dreams, April 17, 2023. Available at: https://www.commondreams.org/news/corporate-landlords-profits-raise-rent Heather Vogell, Rent Going Up? One Company's Algorithm Could be Why, ProPublica, Oct. 15, 2022. Available at: https://www.propublica.org/article/yieldstar-rent-increase-realpage-rent

[18] Maggie Hicks, Real estate industry groups spent millions to halt the national eviction moratorium, Open Secrets, August 4, 2021. Available at: https://www.opensecrets.org/news/2021/08/real-estate-industry-spent-millions-to-halt-national-eviction-moratorium/

[19] Roshan Abraham, People Are Organizing to Fight the Private Equity Firms Who Own Their Homes, Vice, May 16, 2023. Available at: https://www.vice.com/en/article/jg5pek/people-are-organizing-to-fight-the-private-equity-firms-who-own-their-homes; Heather Vogell, When Private Equity Becomes Your Landlord, ProPublica, Feb. 7, 2022. Available at: https://www.propublica.org/article/when-private-equity-becomes-your-landlord

Federal Lending Practices: Fannie Mae and Freddie Mac work with banks to provide $150 billion to landlords in multifamily financing every year,[20] with very few protections for tenants. The government-sponsored enterprises or GSEs do not make loans directly to multifamily landlords but rather purchase multifamily loans from lenders, promoting liquidity in the multifamily lending market while relieving lenders of any default risk. While the benefit to banks and borrowers is clear, for tenants, however, their experience of GSE financing has unfortunately been much more negative.[21] The GSEs have an indefensible track record of buying and providing government guarantees to overvalued loans that can only be profitable if the new owner neglects building maintenance, increases rents and fees, and seeks to evict lower-income tenants and replace them with wealthier tenants who can pay higher rents. The FHFA is currently conducting a request for information on tenant protections in multifamily housing, and we urge the FHFA to impose tenant protections including unreasonable rent increases and just cause eviction requirements.

Recommendations:

Support Climate Financial Regulatory Efforts: Financial regulators and institutions must manage and mitigate climate financial risks–not simply push the costs off onto consumers. Many lenders and insurers are contributing significantly to the climate crisis by internalizing short-term profits through their investments in risky, carbon-intensive industries, while externalizing the costs onto their customers and ultimately withdrawing when the physical climate risks get too high, leaving regular people underwater.[22] Financial regulators need to monitor these risks and risk management methods to protect consumers, financial institutions, and the financial system.

Improve Insurance Data Collection: We do not currently have access to the data necessary to systematically understand insurance trends on a national level including the harm to consumers from steep increases in prices or withdrawals of coverage, or the data to monitor the potential for systemic financial risk that may spill over into the broader financial system. We support the

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Americans for Financial Reform, Research Memorandum: Estimate of Minimum Number of Housing Units Owned by Private Equity Firms, June 28, 2022. Available at: https://ourfinancialsecurity.org/2022/06/letters-to-congress-new-afr-research-estimating-minimum-number-of-private-equity-owned-housing-units/

[20] Federal Housing Finance Agency, Release: FHFA Announces 2023 Multifamily Loan Purchase Caps for Fannie Mae and Freddie Mac, Nov. 10, 2022. Available at: https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-2023-Multifamily-Loan-Purchase-Caps-for-Fannie-Mae-and-Freddie-Mac.aspx

[21] Eileen Markey, How Freddie Mac Helps Private Equity Profit From Tenant Misery, The Nation, June 2023. Available at: https://www.thenation.com/article/society/freddie-mac-private-equity-housing/

[22] Brianna Sacks, Lawmakers launch probe of insurance firms' funding of fossil fuel industry, Washington Post, June 9, 2023. Available at: https://www.washingtonpost.com/climate-environment/2023/06/09/investigation-insurance-companies-fossil-fuels/

Federal Insurance Office's limited data request for ZIP-code level data on homeowners insurance policies in a selection of US states, and urge the FIO to go further in terms of seeking more granular data at the census tract level and additional data on state FAIR plan usage, and to analyze racial and economic disparities in access to and costs of insurance.[23]

Develop a Public Reinsurance Program for States: Reinsurance price increases are another major driver of insurance pricing. A public reinsurance program could allow states and companies to opt-in in exchange for agreeing to consumer protections, access to coverage, and limiting or ending development in hazardous locations.

Support Climate Resilient Communities: The Inflation Reduction Act provided a large amount of federal funding to support individual property owners in making their homes more energy-efficient and climate resilient, as well as funding to improve climate resilience in affordable housing and public infrastructure, among other expenditures.[24] FEMA also provides Hazard Mitigation Grants for state and local governments to develop hazard mitigation plans and rebuild in a way that reduces future disaster losses in their communities, along with limited resources for buyout programs. These resources are deeply needed, and we will need to significantly expand these resources to meet current demand.

Support States in Lowering Disaster Losses: States can reduce their future disaster losses by limiting or ending new development in hazard-prone areas, investing in climate resilient infrastructure, and requiring insurers to provide premium reductions when property owners undertake "home hardening" improvements that will reduce their vulnerability. California took these steps following its devastating 2017 and 2018 fires, while allowing insurers to increase rates. In the years following the 2018 fires, California insurers have earned substantially higher profits for homeowners insurance than the national average: nationally, insurers earned 7% profits on homeowners insurance in 2019, but they earned 32.8% in California that year, and California homeowners insurance policies have continued to be much more profitable in subsequent years.[25]

Require Tenant Protections on FHFA-Financed Properties: The FHFA should require limits on rent increases to no more than 3% annually as a condition of receiving federally-backed

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[23] Americans for Financial Reform, Letters to Regulators: Letter in Support of FIO's Proposed Climate-Related Financial Risk Data Collection, Dec. 20, 2022. Available at: https://ourfinancialsecurity.org/2022/12/letters-to-regulators-letter-in-support-of-fios-proposed-climate-related-financial-risk-data-collection/

[24] The White House, Inflation Reduction Act Guidebook, Jan. 2023. Available at: https://www.whitehouse.gov/cleanenergy/inflation-reduction-act-guidebook/;

[25] NAIC Report on Profitability by Line by State in 2021, January 2023 at 143 and 163. https://content.naic.org/sites/default/files/publication-pbl-pb-profitability-line-state.pdf

financing from the GSEs. The ability to impose large, unjustified, and unaffordable rent increases on tenants is functionally equivalent to the ability to evict tenants without cause. Limits on rent increases will protect tenants from eviction and/or homelessness by creating a schedule for reasonable and gradual rent increases. Imposing limits on rent increases is a proven policy that can immediately stabilize prices, halt rent gouging, and reduce the risk of displacement and homelessness, while increasing housing security and affordability over the long term.

Crack Down on Private Equity Abuses: We support the Stop Predatory Investing Act, which was introduced this week in the Senate. The Stop Predatory Investing Act will remove the interest and depreciation deductions for large investors in the single-family home space, giving regular Americans a hand in the housing market while making our tax code fairer.

Thank you for the opportunity to provide testimony on these urgent issues. I look forward to answering any questions members may have about my testimony today.

Department of Energy

DOE Updates Mobile Home Efficiency Standards to Lower Household Energy Bills

MAY 18, 2022

New Initiative Will Save Owners and Renters $10 Billion on Utility Bills, Reduce Carbon Pollution, Ensure More Access to Affordable Mobile Homes

WASHINGTON, D.C. — The U.S. Department of Energy (DOE) today adopted new energy standards for manufactured housing — commonly referred to as single-section and multi-section mobile homes — that will help consumers save hundreds of dollars on their annual utility bills and slash carbon emissions by 80 million metric tons, which is equivalent to the energy use of over 10 million homes in one year. Once implemented, the new efficiency standards, which include updates to insulation and sealing requirements, will help bring the country closer to reaching President Biden's goal of net-zero emissions by 2050.

"DOE's new energy efficiency rules will help save the 17 million Americans residing in mobile homes up to $475 per year on average on their utility bills," said **U.S. Secretary of Energy Jennifer M. Granholm**. "The rules will hold manufacturers of these U.S. homes to cost-saving efficiency standards, giving residents more comfortable living environments and a much-needed break on their annual utility costs, while delivering cleaner air for their communities."

The new efficiency rules will require all new manufactured homes to meet standards for size and climate-dependent energy conservation measures based on the insulation and sealing requirements in the most recent version of the International Energy Conservation Code (IECC 2021). Compliance is required for new manufactured homes produced beginning one year after the rule is published in the Federal Register, approximately late May 2023. DOE was under a court order to update these standards by May 16, 2022.

According to DOE estimates from the final rule, individuals can expect to save on average $177 per year in single-section homes and $475 per year in multi-section homes on their utility bills. Cumulatively, consumers will save $551 million on utility bills each year and a total of $10 billion over the next 30 years. In the same 30-year window, DOE projects a reduction in carbon and methane emissions equivalent to the annual emissions of 11.7 million homes.

Purchasers of both single- and multi-section manufactured homes are expected to save more on their utility bills than the additional money that is added to their monthly mortgage, with single-section purchasers recouping the additional money purchasers put down up front to secure the loan (approximately $70) within 10 months. DOE adopted a tiered approach, with different standards for single- and multi-section manufactured homes, in order to balance the important objectives of energy efficiency, cost savings, upfront affordability, and housing supply challenges.

Additional Efficiency and Affordability Measures for Manufactured Homes

In addition to the new efficiency rules, DOE is supporting the establishment of credit-enhancement mechanisms, such as loan-loss reserves, to drive down the cost of financing for manufactured housing and increase access to affordable housing. DOE will provide technical assistance and guidance, facilitate outreach to lenders and agencies, and work with state partners to develop replicable state models that ensure access to affordable, efficient manufactured homes.

DOE, in collaboration with the National Association of State Energy Officials, is also launching the Manufactured Home Energy Efficiency and Affordability Initiative to work with states and other partners in improving access to energy efficient manufactured homes across the United States, including tribal lands. The California Energy Commission, Colorado Energy Office, Kentucky Office of Energy Policy, Maine

Governor's Energy Office, Minnesota Department of Commerce Energy Division, Montana Energy Office, New York State Energy Research and Development Authority, North Carolina Department of Environmental Quality Energy Office, South Carolina Energy Office – Office of Regulatory Staff, and West Virginia Department of Economic Development's Office of Energy have already signed on to participate.

To increase transparency, DOE has created a **consumer-focused website** with information on energy efficient manufactured homes and financing options, including content on incentives, grants, and loan programs available through federal agencies, states, and others. The site includes links to resources for manufactured homebuyers who own or lease their land as well as those living in manufactured home communities, including resident owned cooperatives.

This action follows the release earlier this week of the **Administration's Housing Supply Action Plan**, which includes legislative and administrative policies to boost supply and reduce costs for a number of housing types, such as manufactured housing.

DOE adopted a tiered approach, with different standards for single and multi-section manufactured homes, in order to balance the important objectives of energy efficiency, cost savings, upfront affordability, and housing supply challenges.

DOE's Building Technologies Office implements minimum energy conservation standards for more than 60 categories of appliances and equipment. To learn more, visit the **Appliance and Equipment Standards Program homepage**.

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Private Equity Stakeholder Project (PESP) – Statement for the Record

July 14, 2023 Hearing of the House Housing and Insurance Subcommittee

How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing

Chairman Davidson, Ranking Member Cleaver, and members of the Subcommittee, thank you for the opportunity to provide a statement regarding the July 14, 2023 hearing "How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing" by the Housing and Insurance Subcommittee of the House Financial Services Committee.

My name is Jordan Ash and I am the Housing Campaign and Research Director of the Private Equity Stakeholder Project (PESP). PESP is a non-profit organization focused on tracking the impacts of investments by private equity firms and similar Wall Street firms on ordinary people, including residents of apartments, rental homes, and mobile home communities.

In recent years, the real estate landscape has witnessed a significant transformation as a new force has emerged in the housing market: corporate landlords, many of whom are owned or backed by private equity firms. These corporate entities have swiftly gained prominence, reshaping the dynamics of renting and homeownership. The rise of corporate landlords and private equity housing acquisitions has raised a number of concerns, such as the steady upsurge in housing prices, making it increasingly challenging for individuals and families to find affordable homes. Moreover, the influence of corporate landlords has extended beyond pricing, often resulting in diminished tenants rights and housing quality.

Given the scope of private equity and investor acquisitions of housing and the impact of those acquisitions on residents, we believe lawmakers should put in place additional standards to protect tenants.

Below are some examples of the negative impacts of private equity's growing ownership of rental housing.

The CIM Group

In 2020, the private equity firm CIM Group purchased Southern Towers, a five-building apartment complex of over 2,000 units in Northern Virginia. For decades, Southern Towers has been home to thousands of hardworking blue-collar families, many of whom are African immigrants. The CIM group purchased Southern Towers with the help of a $346 million loan with a 2.2% interest rate from Freddie Mac.

Tenants hoped that CIM would bring positive changes to the complex, but mold, pests and other maintenance issues continued to go unresolved and CIM filed hundreds of eviction notices during a nationwide ban on evictions. In the first six months of owning Southern Towers, CIM filed over 500 eviction notices against 255 households during the federal eviction moratorium.

Southern Towers tenants report that they feel that CIM wants to push them out in favor of the thousands of Amazon employees who will work at Amazon's second headquarters a few miles away, which just opened last month.

These and other actions run contrary to Freddie Mac's purpose of providing and preserving affordable workforce housing. Freddie Mac has taken no action against CIM, and CIM remains eligible to receive financing for future acquisitions.

The Blackstone Group

Private equity firm Blackstone is the largest landlord in the U.S., with more than 280,000 rental units. Blackstone has highlighted the existing housing shortage and declining new supply of housing in the U.S. as a reason to invest in its real estate funds and touted double-digit annual investment returns.

Blackstone's real estate chief late last year pointed to the company's resumption of evictions as a reason to have "confidence in [the] cash flow growth" of its housing portfolio. Blackstone has initiated a wave of evictions in a number of states and counties, and in some cases filed to evict tenants who owed just one month's rent.

In May 2021, Blackstone acquired 5,800 rental units in the San Diego, CA area. In August 2022, Blackstone representatives informed local elected officials about "their plans to potentially evict tenants with outstanding rent balances." According to one local councilmember, Blackstone "informed me that over 100 tenants residing at their Escondido properties have delinquent accounts that may result in evictions."

Blackstone has a strong financial incentive to evict existing tenants because California law limits how much a landlord can increase rents for current tenants, but the law does not apply to how much a landlord can charge a new tenant. The Tenant Protection Act of 2019 sets a maximum cap of 10% for annual rent hikes. However, Blackstone can charge much higher rents to new tenants.

For instance, at the Fashion Hills apartment complex in San Diego, the average rent as of September 2021 was $1,641/mo. Under California law, the maximum cap of 10% for an annual rent hike would mean an increase to an average of $1,805. Yet, in March 2023, Blackstone was listing 1 bedroom units starting at $2,354/mo (43% higher than the previous average) and 2 bedrooms starting at $2,690/mo (64% higher than the previous average).

For more information, please see PESP's March 2023 report, "**Blackstone Comes to Collect: How America's Largest Landlord and Wall Street's Highest Paid CEO Are Jacking Up Rents and Ramping Up Evictions**."

Progress Residential

Progress Residential owns more than 90,000 single family rental homes, making it the largest single family rental company in the U.S. Progress is owned by the private equity firm Pretium Partners.

Numerous news stories have detailed the problems that Progress tenants have experienced in different cities throughout the country. The company's subsidiary, Front Yard Residential, has especially come under public scrutiny in Minnesota, where it has been the subject of several recent regulatory actions:

- In January 2022, the City of Columbia Heights, a suburb of Minneapolis, revoked the rental license of the Progress-associated company Front Yard Residential and notified tenants that they needed to vacate their homes within 45 days due to the company's failure to resolve maintenance issues at multiple properties. The violations included missing carbon monoxide and smoke detectors, mold, and incorrectly installed or poorly maintained electrical wiring. The city stated that the violations "put residents' lives at risk and shall not be tolerated by the City of Columbia Heights."

- In February 2022, the Minnesota Attorney General filed a lawsuit against Front Yard Residential, alleging that the company "failed to repair and maintain rental homes that lacked heat, had backed up sewers, doors and windows that would not close, mold, even wild animals." The Attorney General stated that Front Yard's "strategy of extracting profit from their tenants by claiming to provide them with prompt, high-quality maintenance and repair but actually leaving them in uninhabitable homes isn't just shameful, it's deceptive, fraudulent, and violates Minnesota law."

- In January 2023, due to tenant organizing that included recurring meetings with the city, the City of Minneapolis required Front Yard Residential to comply with additional regulations in order to maintain its license to operate in the city. In previous years, the city began portfolio-wide inspections of Front Yard Residential properties and found violations about 58% of the time. According to the *Star Tribune*, the city had to take the company to court nine times for violations that had not been fixed between June 2021 and September 2022. "Property management for these rental properties has not consistently met minimal housing standards," the City of Minneapolis stated.

For more information, please see PESP's July 2023 report "**Progress Residential and the Racial Wealth Gap: How One Corporate Landlord Has Extracted Over $60 Million in Wealth from North Minneapolis and Hennepin County**" and PESP's April 2023 report "**Progress for Who? Progress Residential Preys on Renters as It Buys Up Homes in Tennessee and the U.S. South**."

Vinebrook Homes

Private equity-backed rental home landlord Vinebrook Homes has become one of the largest owners of single-family homes in Cincinnati and Dayton, Ohio, buying up homes that would otherwise be available for first-time homebuyers to purchase.

Officials in Huber Heights, Ohio estimate VineBrook owns roughly 15% of homes in the city. Vinebrook has filed to evict over two hundred residents in Huber Heights and Riverside and drawn hundreds of code violation complaints in Huber Heights since January 2022 alone.

Earlier this year the City of Cincinnati sued Vinebrook, accusing the company of creating a "public nuisance" and repeatedly violating both the Ohio Landlord Tenant Act and Cincinnati Municipal Code. VineBrook owns approximately 950 properties in Cincinnati, including more than 5% of all housing stock in some communities. The lawsuit is ongoing.

In addition to aggressive evictions and complaints of poor maintenance, private equity-backed rental home landlords like Vinebrook have also been criticized for making it harder for homebuyers to purchase homes, buying them quickly in all-cash offers.

Meadow Partners

Last August, private equity firm Meadow Partners acquired two apartment buildings in the East Village of New York City. These apartments were home to a wide cross section of New Yorkers. Many chose to raise families there.

After Meadow Partners bought the buildings, long time tenants were subject to changes such as 25% rent increases. Other tenants were forced out of their homes as Meadow Partners refused to renew their leases with no explanation.

Meadow Partners told *Crain's New York Business Journal* that the market-rate units are renting below market value, but high rents and demand in the city should mean room for growth.

A May article in *New York* magazine reported about the suicide of one of the tenants, who jumped to his death after the sale of the building. The magazine wrote "For the tenants trying to stay, Finch's death was an omen, the end of an era of a certain type of New York life, one that the city will no longer sustain."

Given these examples and the growing scope of private equity and investor acquisitions of housing and the impact of those acquisitions on residents, we believe lawmakers should put in place additional standards to protect tenants.

Thank you,

Jordan Ash

Jordan Ash
Housing Campaign and Research Director
Private Equity Stakeholder Project

PUBLIC CITIZEN STATEMENT FOR THE RECORD

SUBMITTED TO THE

HOUSE FINANCIAL SERVICES COMMITTEE

On

"How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing"

July 24, 2023

Public Citizen

1600 20th Street, N.W.

Washington, DC 20009

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Public Citizen welcomes the opportunity to provide a written statement for the record regarding the hearing: How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing. As State Farm, Farmers, AIG and other insurers limit coverage in climate-vulnerable areas, national attention to the climate-driven insurance crisis is long overdue.[i] Across the country, climate change is contributing to higher losses from more frequent and intense wildfires, floods, and other extreme weather events, and insurers are raising premiums and cutting coverage.[ii] Yet at a time when more Americans are struggling to find and afford insurance coverage, some politicians have focused on protecting insurance coverage for a different group: the oil, gas, and coal companies fueling the crisis.

As the world moves away from reliance on oil, gas, and coal, fossil fuel industry proponents have sought to rebrand climate denial in the form of attacks on "Environmental, Social and Governance" criteria in legislation designed to punish financial firms and regulators that respond appropriately to the serious threats posed by climate-related financial risk. In the insurance context, they seek to limit insurers' ability to address climate risks from fossil fuels, intimidate insurers who make commitments to reach net-zero emissions targets, and prevent companies, legislators, regulators, and the public from assessing the impacts of the continued burning of fossil fuels on insurance markets.[iii]

So-called anti-ESG attacks have expanded to the insurance sector due to its crucial role in sustaining the fossil fuel industry. Insurance companies act as gatekeepers for fossil fuel companies, which cannot operate without insurance. The Insure Our Future scorecard shows that many insurers have begun to recognize the risks and create at least minimal restrictions on their underwriting for fossil fuels, particularly for coal.[iv] However, even as they back away from homeowners, U.S. insurers continue to recklessly delay action, and not a single U.S. insurer has yet to rule out support for oil and gas expansion projects that are flatly incompatible with science-based climate targets—and therefore at odds with maintaining sound, healthy, affordable insurance markets.

Insurers are also major investors in fossil fuels. Even as State Farm threatens to limit coverage in California, letters sent to insurers as part of an investigation by the Senate Budget Committee highlight that State Farm had over $30 billion invested in fossil fuels, while the industry had over half a trillion dollars in fossil fuel investments.[v]

The property & casualty insurance industry has so far relied on the use of short-term contracts and risky delay tactics to postpone action and avoid the consequences of fueling the crisis. As insurers now scramble to protect their profits, they are passing on the costs of climate change to consumers through higher premiums, reduced coverage, and delayed, denied and low-balled claims.[vi] While some insurers can profit doubly from the climate crisis in the short term, many Americans, particularly those in low-income and communities of color, will not be able to keep pace with rising costs. And while some insurers can hastily leave vulnerable areas and entire states, many Americans cannot easily uproot from their homes, communities, livelihoods, and local businesses.

Instead of working to help consumers adjust and requiring insurers to mitigate the risks, "anti-ESG" politicians in impacted states have instead invented scapegoats and leaned into new forms of climate denial. In Florida, the state's Chief Financial Officer, Jimmy Patronis, has ignored the realities of climate change threatening his state and promised to "fight back" against insurers who

consider "ESG" factors.[vii] As yet another major insurer, Farmers, recently left the state, affecting 100,000 policies, Patronis focused attacks on Farmers' recent signing of the U.N. Principles for Sustainable Insurance.[viii]

The industry itself has pushed back on these dangerous moves. In Texas, where an insurance crisis has forced tens of thousands of consumers to rely on last resort coverage, several bills aimed to limit insurers' use of environmental data.[ix] In response, the Insurance Information Institute explained that "ESG is in the DNA of any insurance company," and the American Property Casualty Insurance Association described efforts to limit insurers' use of ESG scores as a "potentially dangerous intrusion into the free market."[x]

Attacks on "ESG" are not limited to preventing the private sector from assessing risks, but also include restricting the federal government's ability to collect data and assess the risks. In addition to attacking companies who make commitments to reduce their carbon emissions, anti-ESG proponents have attacked even basic data collection efforts on insurance markets. Last year, the Federal Insurance Office (FIO) proposed collecting data on the impact of climate change on insurance markets to produce the first comprehensive review of climate impacts on insurance markets. Politicians who style themselves "anti-ESG" responded by criticizing the proposal as an effort to "strong arm" insurers.[xi] Simply put, there is no principled basis on which to oppose merely *studying* the growing chaos in insurance markets. Moreover, it is a core part of FIO's mission to conduct studies of this type.

In refusing to recognize climate impacts, "anti-ESG" politicians have little to offer to their constituents to address a growing insurance crisis, leaving them dependent on increasingly desperate political stunts and scapegoats. Despite the twisted logic of "anti-ESG" and its lack of popularity even among the insurance industry and conservative voters, the attacks on the insurance industry are likely to continue, as they provide cover not only for the fossil fuel industry but also their proponents' failure to offer coherent solutions to the insurance crisis.

As major insurers retreat and premiums skyrocket, the public cannot afford for regulators to continue to ignore the financial risks from climate change. The Federal Insurance Office must move forward with an overdue effort to collect data and offer recommendations on a growing national insurance crisis.[xii] While extensive anecdotal evidence suggests a growing crisis, consistent, granular data is needed to assess these trends at a national level and inform analyses of potential systemic financial risks.

Regulators and legislators should also bring transparency to insurers' contributions to the climate crisis and exposure to climate-related risks. While regulators in Connecticut and New York have taken crucial first steps by issuing guidance to insurers on managing climate-related risks, more states must act, and they must act more ambitiously, requiring insurers to mitigate the risks by reducing their insured and financed emissions in line with science-based targets. A recent report from the Federal Insurance Office highlights that state efforts to address insurers' climate-related risks are fragmented and nascent, and the Federal Insurance Office should collect data on insurers financed and insured emissions.[xiii]

Additionally, legislators and regulators across the country must recognize that a climate-driven insurance crisis will not be limited by state lines and is quickly emerging as a national issue. As

the reach of extreme weather events like wildfires and floods spreads further and global reinsurers raise prices or back away, there are few states that will be unaffected by climate impacts on insurance markets and many states will not be equipped on their own to solve a complex and growing global crisis without coordinated action. Congress should recognize the national threat of a climate-driven insurance crisis and work to require industry to reduce greenhouse gas emissions in line with science-based targets while identifying solutions that protect Americans' homes and life savings, as well as the broader economy.

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NAHB Witness Responses to Committee Questions for the Record
Subcommittee Hearing, entitled "How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing."
July 14, 2023

Impact of Insurance Costs on the Development of Multifamily Housing Question for Ms. Huey of the National Association of Home Builders

Ms. Huey, you mentioned that some builders in various places are struggling to contend with the rising cost of insurance required for their affordable multifamily housing projects. Can you explain the impact and challenges of these costs on multifamily housing developers?

Alicia Huey:

The costs of multifamily property, casualty and general liability insurance is an industry-wide concern for apartment owners and managers. However, the cost of new insurance policies and renewals is especially problematic for housing providers who participate in rent-restricted and income-targeted federal affordable housing programs because the skyrocketing insurance costs can't be offset through rent increases. These programs have statutory and/or regulatory mandates that determine how the apartments' rents are set and increased. The affordable apartment providers must adhere to the statutory and regulatory rent restrictions, which essentially prevent them from raising funds necessary to pay for the sudden spike in insurance costs.

Apartment owners are required to have certain insurance coverage to satisfy mortgage requirements, but it is becoming harder to afford. Private insurance companies are dramatically raising insurance rates and deductibles for affordable housing. In some cases, insurance providers are denying sales of new insurance policies or renewals. NAHB's multifamily members are reporting that development and operation of affordable rental housing—using the historically successful Low-Income Tax Credit or other affordable housing programs--is becoming infeasible in many areas of the U.S. due to these high insurance costs. One member reported that the cost of insurance for his portfolio increased 80% last year, and even though he had minimal losses last year, his costs are doubling this year. He also noted that his general deductible increased from $25,000 to $250,000. Unfortunately, this is not an isolated example. The cash flows on affordable properties cannot sustain these increases.

NAHB is interested in working with policy makers at all levels of government to develop solutions that will help maintain continued affordability of these essential apartment communities and increase the supply of new affordable rental housing.

Endangered Species Act Endangering California Housing Production for Ms. Huey of the National Association of Home Builders

Ms. Huey, you mention in your testimony the current situation home builders in California are experiencing with a misapplication of the Endangered Species Act and ongoing environmental activist litigation. As a result, FEMA has decided to pause part of its NFIP mapping program until it has

consulted with the Fish and Wildlife Service and National Marine Fisheries Service to protect the spawning rights of salmon.

• Can you quickly explain how this pause in mapping will impact home builders and buyers in California?

• How long and how costly do you expect this environmental overreach to be?

• Does the NAHB have any suggested legislative fixes that would address this ongoing problem?

Alicia Huey:

Can you quickly explain how this pause in mapping will impact home builders and buyers in California?

- Under the National Flood Insurance Program (NFIP), home builders and home buyers within FEMA's special flood hazard areas (SFHA) must obtain and maintain federal flood insurance coverage. The only time homeowners are not required to carry flood insurance is when the property is no longer in a flood zone, or the property does not have mortgage. Using FEMA's letter of map revision based on fill (LOMR-F) and conditional letter of map revision based on fill (CLOMR-F) processes, home builders can elevate the home out of the SFHA, and subsequent homeowners no longer must obtain federal flood insurance. Home builders therefore frequently seek LOMR-F and CLOMR-Fs from FEMA to seek FEMA opinion on whether a project as design or as built is located outside of the SFHA. Historically obtaining these CLOMR-Fs and LOMR-Fs has been a non-controversial issue.

How long and how costly do you expect this environmental overreach to be?

- It is unclear how long the pause on issuing LOMR-Fs and CLOMR-Fs will be. FEMA has not provided a timeline to our members in California, other than stating that consultation with the Fish and Wildlife Service and National Marine Fisheries Service (NMFS) will begin with NMFS sometime during 2024. Once that consultation has completed, FEMA will initiate an ESA consultation with FWS probably during 2026. Importantly, FEMA will not restart the mapping program until both ESA consultations have been completed. Looking at past experiences in Oregon and Washington, conducting an ESA consultation on the NFIP took over a decade to implement.

  It is important to highlight that FEMA did not pause the mapping program (i.e., LOMR-Fs and CLOMR-Fs) in Oregon and Washington during the ESA consultation process. Unfortunately, in California FEMA has decided to take a different approach and suspending the mapping program.

  As for costs, it is currently unclear how many homes will not be built in California due to this overreach. However, developers and builders typically avoid located properties within SFHA, and particularly in instance where a developer, builder, or landowner is unsure that FEMA would remap the property outside the SFHA. More importantly, it is unclear how many

home buyers will purchase properties that are required to carry federal flood insurance coverage. As noted in my written testimony, for every $1,000 increase in the median home price, it prices out over 117,000 families that can no longer afford a home.

Does the NAHB have any suggested legislative fixes that would address this ongoing problem?

- We believe the legislative text of the National Flood Insurance Program (NFIP) already directs FEMA to respond to landowners' requests for letters of map change. The plain language of the NFIP provides that if [an entity] (e.g., landowners, states, local governments) i) requests a map change, ii) provides the required technical data and iii) agrees to fund the change, the Administrator (FEMA) "shall" revise and update the map.

- However, in California, FEMA has halted processing all new CLOMR-Fs and LOMR-Fs until FEMA completes an ESA consultation with both FWS and NMFS.

- When Congress reauthorizes the NFIP it should make clear responding to a landowners request for a CLOMR-F or LOMR-F are non-discretionary actions (i.e., FEMA shall) under the NFIP.

Ms. Alicia Huey
1. Which of the following options best describes your self-identified race? (you may choose more than one)
a. White or Caucasian
b. Black or African American
c. Hispanic/Latinx
d. Asian
e. Middle Eastern/North African
f. Choose not to answer
g. Prefer to self-describe (please specify)

Alicia Huey: a.

2. Which of the following options best describes your gender identity?
a. Woman
b. Man
c. Non-binary
d. Transgender Man
e. Transgender Woman
f. Choose not to answer
g. Prefer to self-describe (please specify)

Alicia Huey: a.

Questions for the Record from Ranking Member Maxine Waters
Subcommittee Hearing, entitled "How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing."
July 14, 2023 9am

Ms. Caroline Nagy

1. Which of the following options best describes your self-identified race? (you may choose more than one)
    a. White or Caucasian
    b. Black or African American
    c. Hispanic/Latinx
    d. Asian
    e. Middle Eastern/North African
    f. Choose not to answer
    g. Prefer to self-describe (please specify)

2. Which of the following options best describes your gender identity?
    a. Woman
    b. Man
    c. Non-binary
    d. Transgender Man
    e. Transgender Woman
    f. Choose not to answer
    g. Prefer to self-describe (please specify)

3. What are the economic and social benefits of updated building standards on communities and individual households, including in the context of mitigation and disaster recovery efforts? Can strengthened building standards decrease insurance costs and if so, how?

When residential buildings are constructed in conformity with updated building standards, their residents and communities benefit in several ways.

First, they will have lower home energy costs, which is especially important for lower-income households as well as seniors on fixed incomes. More than a quarter of U.S. households struggle to meet their energy needs. They frequently face the risk of utility service termination, which can put their housing at risk. Low-income families, in particular, spend a substantial portion of annual income on electricity and heating—8.6 percent, compared to 3 percent for higher-income households, according to the Department of Energy. Because of high energy costs, low-income families often face the "heat or eat" conundrum and must sacrifice other important needs, including groceries and medicine, or reduce energy use in ways that can harm

their health and safety. Levels of energy insecurity differ clearly by race: 52 percent of Black households and 47 percent of Latino households reported instances of energy insecurity, compared with 23 percent of white households. Poor state of repair in housing contributes significantly to high energy burdens among low-income populations and in communities of color.

Second, the adoption of modern energy standards will lead to increased comfort and healthier living conditions, reduce risks associated with poor air quality, and offer better protection during extreme weather-related power outages. Crucially, they will be better able to protect residents from extreme heat, especially in situations where their building doesn't have power. Extreme heat kills hundreds of Americans every year and sickens many more. Scientists expect to see an increase in deaths and illnesses from heat, particularly among vulnerable populations, such as children, the elderly, economically disadvantaged groups, and those with chronic health conditions made worse by heat exposure.

Finally, stronger, more resilient buildings should experience lower losses in disasters and extreme weather events as compared to buildings that haven't been strengthened. Their lower risk should be reflected in lower premiums, as is required in California. Additionally, it is important to note that it is much more cost-effective to build to higher standards than it is to retrofit an existing building to higher standards.

4. Can California's insurance market be considered a successful example of ensuring consumer protections and affordability of insurance while maintaining a profitable insurance industry? Please explain.

California's strong insurance regulatory regime has kept premiums lower in California than the national average, despite much higher average home costs than the nation. This is in harsh contrast to Florida's deregulatory regime where premiums are among the highest in the nation.

According to the most recent National Association of Insurance Commissioners profitability report, California insurers have earned substantially higher profits for homeowners insurance than the national average since 2019. Nationally, insurers earned 7% profits on homeowners insurance in 2019, but they earned 32.8% in California that year, and California homeowners insurance policies have continued to be much more profitable every year since.[1]

[1] NAIC Report on Profitability by Line by State in 2021, January 2023 at 143 and 163. https://content.naic.org/sites/default/files/publication-pbl-pb-profitability-line-state.pdf

"How Mandates Like ESG Distort Markets and Drive-Up Costs for Insurance and Housing."
July 14, 2023, Questions for the Record
Congresswoman Nikema Williams

1. Ms. Nagy: How can the federal government help states reduce the climate vulnerability of their housing stock?

While building construction is generally regulated at the state and local level, the federal government can immediately take action to require updated building codes as a financing condition for FHFA, FHA, and USDA mortgages. When residential buildings are constructed in conformity with updated building standards, their residents and communities benefit in several ways. First, they will have lower home energy costs, which is especially important for lower-income households as well as seniors on fixed incomes. Second, the adoption of modern energy standards will lead to increased comfort and healthier living conditions, reduce risks associated with poor air quality, and offer better protection during extreme weather-related power outages. Finally, stronger, more resilient buildings should experience lower losses in disasters and extreme weather events as compared to buildings that haven't been strengthened. Their lower risk should be reflected in lower premiums. Additionally, it is important to note that it is much more cost-effective to build to higher standards than it is to retrofit an existing building to higher standards.

FEMA also provides Hazard Mitigation Grants for state and local governments to develop hazard mitigation plans and rebuild in a way that reduces future disaster losses in their communities, along with limited resources for buyout programs. These resources are deeply needed, and we will need to significantly expand these resources to meet current demand.

Finally, the federal government needs to dramatically increase its financial support of energy-efficient affordable housing in climate-safer areas. Currently, affordability pressures in major cities are forcing more and more Americans into harm's way.

2. Ms. Nagy: How might recent investments provided by President Biden and Congressional Democrats through the Infrastructure Investment and Jobs Act, as well as the Inflation Reduction Act, help industry and local governments address these underlying issues?

The Inflation Reduction Act provided a large amount of federal funding in the form of tax credits and up to $14,000 rebates for lower-income households, allowing individual property owners to make their homes more energy-efficient and climate resilient. This will allow their buildings to become more resilient while emitting less carbon, increasing health and safety in times of natural disasters as well as reducing greenhouse gas emissions. The IRA also included funding to

improve climate resilience in affordable housing, with $1 billion for HUD to fund green and resilient retrofits in affordable housing, and public infrastructure, among other expenditures. The Clean Energy Accelerator carves out a minimum of $15 billion for investments in low-income and disadvantaged communities, including at least $7 billion prioritized for residential and community solar projects.

3. Ms. Nagy: How might these investments not only help industry and local governments address these issues, but benefit marginalized communities that experience most of these devastating losses?

When we reduce greenhouse gas emissions, everyone benefits from cleaner air and a healthier environment, but we know that climate hazards will not be felt equally but will amplify existing racial disparities in housing affordability and stability. The legacy of racial discrimination and housing segregation in the US continues to be seen today, where BIPOC communities and lower-income people are more likely to live in areas that are more vulnerable to damage caused by climate change. For example, an analysis of health outcomes data found that people of color are at a higher risk of climate-related health impacts from heat, extreme cold, hurricanes, flooding, and wildfires than white people.[1] Similarly, a 2021 Redfin study found that redlined neighborhoods have a larger share of homes in high risk flood zones than non-redlined areas.[2]

The IRA will directly benefit families and communities whether they are single-family homeowners or live in affordable housing, though there are significant subsidies and tax credits that are specifically targeted towards lower-income families and communities.

[1] Alique G Berberian, David J X Gonzalez, and Lara J Cushing, Racial Disparities in Climate Change-Related Health Effects in the United States, Current Environmental Health Reports, 2022. Available at: https://pubmed.ncbi.nlm.nih.gov/35633370/

[2] Lily Katz, Redfin, A Racist Past, a Flooded Future: Formerly Redlined Areas Have $107 Billion Worth of Homes Facing High Flood Risk—25% More Than Non-Redlined Areas, 2021. Available at: https://www.redfin.com/news/redlining-flood-risk/

RESPONSES TO QUESTIONS FOR THE RECORD, SUBMITTED BY

JERRY THEODOROU
DIRECTOR, FINANCE, INSURANCE AND TRADE
R STREET INSTITUTE

QUESTIONS POSED BY

REPRESENTATIVES NIKEMA WILLIAMS AND MAXINE WATERS
SUBCOMMITTEE ON HOUSING AND INSURANCE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

FOLLOWING HEARING ON

"HOW MANDATES LIKE ESG DISTORT MARKETS AND DRIVE UP COSTS FOR INSURANCE AND HOUSING"

SUBMITTED ON

AUGUST 24, 2023

RESPONSES TO QUESTIONS FOR THE RECORD, HEARING ON "HOW MANDATES LIKE ESG DISTORT MARKETS AND DRIVE UP COSTS FOR INSURANCE AND HOUSING"

Question by Representative Nikema Williams:

1. ***Would a long-term reauthorization of the NFIP and some key reforms provide some stability and more affordable coverage? And how would that stability help those who live in areas most impacted by climate change-related flooding?***

   Response: *A long-term reauthorization of the NFIP and some key reforms would contribute stability and affordability to the flood insurance market. The multiple short-term extensions of the program have been a source of destabilizing uncertainty to the market. One proposed reform, to limit payouts to repeatedly flooded properties, would contribute to affordability because a small number of properties are disproportionately responsible for a large component of losses. And by increasing the penetration of flood insurance to more homes than the approximately 5 million which currently have flood insurance, adverse selection would be reduced, and the risk pool would be healthier, leading to lower premiums. Those who live in areas most impacted by climate change-related flooding would benefit most from measures taken to increase resilience.*

Questions by Representative Maxine Waters:

1. ***Which of the following options best describes your self-identified race? (You may choose more than one.)***
   a. ***White or Caucasian***
   b. ***Black or African American***
   c. ***Hispanic/Latinx***
   d. ***Asian***
   e. ***Middle Eastern/North African***
   f. ***Choose not to answer***

   Response: *Caucasian*

2. ***Which of the following options best describes your gender identity?***
   a. ***Woman***
   b. ***Man***
   c. ***Non-binary***
   d. ***Transgender Man***
   e. ***Transgender Woman***
   f. ***Choose not to answer***
   g. ***Prefer to self-describe (please specify)***

   Response: *Man*

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