

# Market Analysis on Hazard Impacts

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## Executive Summary

Natural hazards add an asymmetric, unpriced financial risk to the already pressured mortgage servicing industry — driven by rising weather impacts and reconstruction costs. These challenges manifest in escalating homeowners' insurance premiums and unexpected escrow shortages, threatening affordability and homeownership.

The U.S. faces diverse perils, from Severe Convective Storms and Inland Floods in the Midwest to Wildfires and Hurricanes on the coasts, with losses concentrated in high-value, high-risk areas like California, Texas, Louisiana, and Florida. The financial impact is most severe for older, less robust buildings.

Reducing this financial risk requires a multi-faceted approach involving private and public stakeholders. The core strategies are:

1. **Risk Management & Servicer Action:** Servicers must proactively communicate about rising risks and cost impacts and offer loss mitigation levers like spreading escrow shortage repayments.
2. **Resilience Investment:** Promoting resilient construction through modern building codes and cost-effective retrofitting (e.g., roofing for hail) is the most effective defense, directly lowering peril losses and insurance costs.
3. **Insurance Innovation & Education:** Improving the availability of affordable, adequate coverage, including exploring alternatives like parametric insurance, and prioritizing consumer education about risks before the point of sale, is crucial for market stability and sustainability. Homeowners can leverage private market tools (Cotality™ and others) as well as the FEMA National Risk Index to better understand their specific local hazard exposures.

This paper details the hazard landscape, the financial impact on the mortgage lifecycle, and provides actionable recommendations for servicers and the broader housing ecosystem to manage and mitigate this complex problem.



## Financial Impact is Heavy in High Property Value Areas

Impact from weather, unsurprisingly, follows value. California, Texas and Florida, densely populated states with valuable properties, are the most susceptible to financial losses from inclement weather. Sources of this financial impact are regional weather magnifiers: fire and earthquakes in California, severe convective

storms and hurricanes in Texas and floods and hurricanes in Florida. These weather events are also expanding in duration to the point where some perils' "seasons" are year-round or are now adjacent to other weather patterns delivering a multi-peril punch to homeowners. Just as properties are correlated in terms of risk, so are perils; the "right" combination of perils — water and wind, fire and wind, etc. — could cause far more damage than individual peril events.



## 1–2 Punches, Like Conflagration, Exacerbate Losses

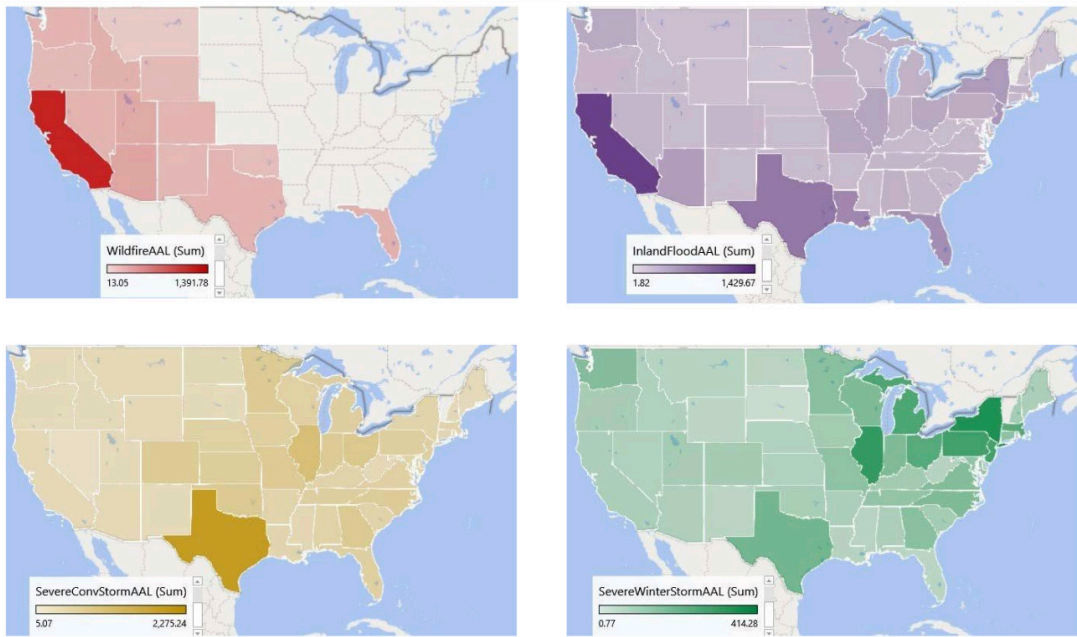
The recent fires in Southern California were a clear example of compounded risk from multiple perils. Fifteen named fires impacted nearly 19,000 acres in January 2025 where drought conditions, vegetation buildup from prior rainy seasons, densely located properties and 80 mph+ Santa Ana winds made them more impactful — to the tune of \$35–45 billion. The Palisades and the Eaton fires in LA County caused the most structural damage — affecting about 20,000 properties. Analyzing the Wildfire Risk Scores in the fire perimeter of the LA County fires showed a sharp skew of properties classified in the High, Very High and

Extreme risk categories. For some properties, conflagration risk (where the structure becomes the fuel for the fire) was higher than traditional Wildfire risk.

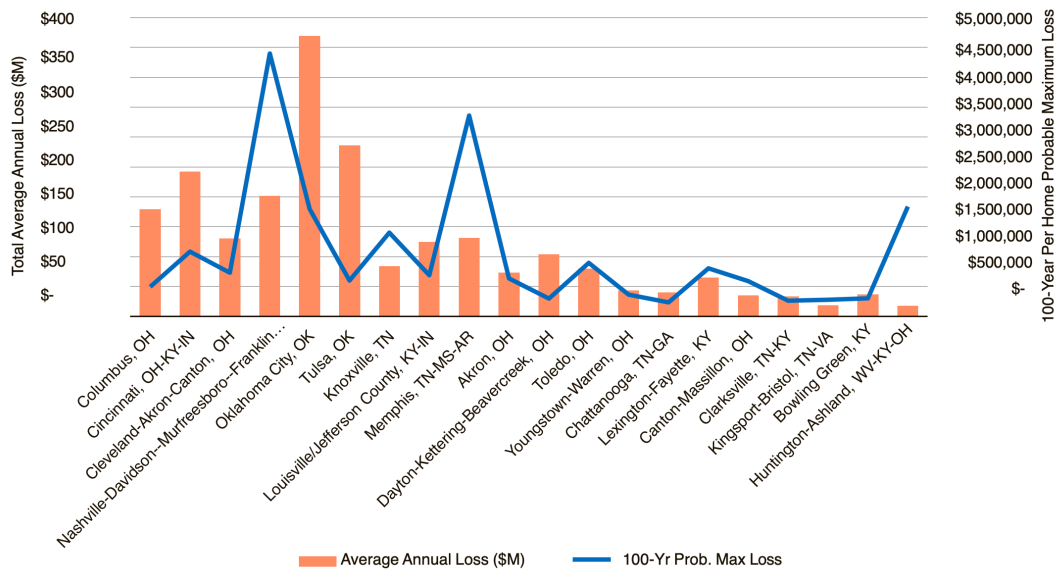
## Severe Perils on Weaker Structures Drive Large Losses

California, Texas, Louisiana, and Florida stand out as the top states for loss both in total and per home, even as the perils that impact these regions are different. Losses are a product of the impact of the peril and the vulnerability of the building. Louisiana is the clear leader in average loss per home, where homeowners are exposed to Inland Flood, Hurricane Wind, and Hurricane Flood. Across the country, Inland Floods and Severe Convective Storms (SCS) are ubiquitous. Collectively these two hazards make up about half of the financial losses to property nationwide. Hurricane winds cause another 15% while wildfire is 4%. Despite less frequent occurrences, hurricanes and wildfires dominate weather headlines because they are more severe and carry the ability to quickly deliver major damage in some parts of the nation.

## Average Annual Loss by State by Peril for Mortgaged Single Family Residences: Current<sup>2</sup>



## Severe Convective Storm Losses<sup>3</sup>



## Borrowers are Severely Impacted by Extreme Weather Events

Financial loss and mortgage delinquency often follow extreme weather events, particularly for properties with higher risk exposure. An analysis of a variety of events across various regions repeatedly shows borrower distress that servicers need to be prepared for.

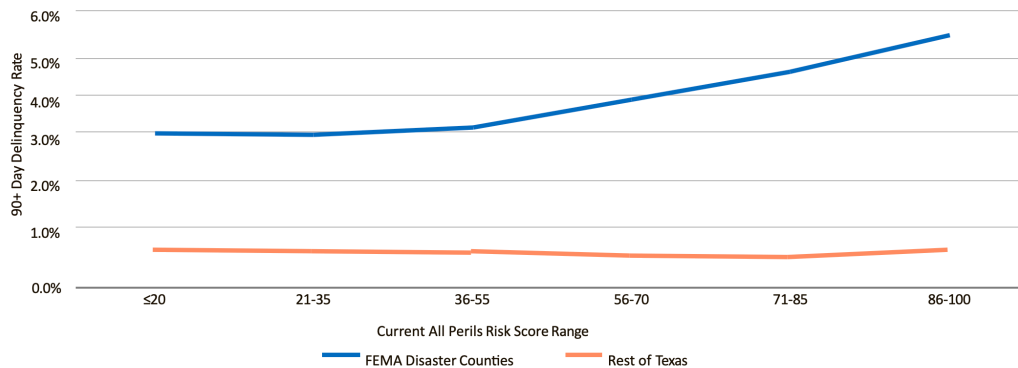
### Hurricane Harvey (August 2017)

Hurricane Harvey struck Texas and Louisiana in 2017, causing over 100 fatalities and an estimated \$125 billion in damage—similar to Hurricane Katrina. In the year following Harvey, property losses exceeded 5% of reconstruction costs, and 90-day mortgage defaults also surpassed 5%.

Resilience plays a critical role, influenced by both building structure and the intensity of the peril. The Cotality Risk Score measures these factors. Among counties under Harvey’s FEMA declaration, loss rates aligned with risk level: just 0.3% for the least risky properties compared to 5.4% for the riskiest. Mortgage performance showed the same pattern: 3% delinquency for the most resilient properties versus 5.6% for the least resilient. For comparison, “Rest of Texas” represents the prevailing delinquency rate in unaffected counties.

Overall, 15,468 properties — out of 435,322 — became 90 days delinquent. While these figures reflect post-disaster outcomes, Cotality’s models consistently demonstrate that weather-resilient properties perform better than others, even within the same geographic area.

90+ Day Default Rate within 1 year post Harvey by All Perils Risk Rating<sup>4</sup>



### Pure 90+ Rate

Loans that were Current when Harvey Made Landfall and became 90, FCL, or REO within one year of Landfall

Risk Score Range	Delinquencies 90+	Mortgages	Total Estimated Loss (\$M)	Total Estimated Reconstruction Cost (\$M)	Delinquency Rate	Loss Rate
≤20	531	17,927	\$ 21.4	\$ 8,396.5	3.0%	0.3%
21-35	2,124	72,637	\$ 107.2	\$ 37,556.7	2.9%	0.3%
36-55	5,605	177,831	\$ 549.7	\$ 93,391.9	3.2%	0.6%
56-70	3,799	98,015	\$ 610.7	\$ 48,896.4	3.9%	1.2%
71-85	2,123	46,016	\$ 650.2	\$ 20,992.0	4.6%	3.1%
86-100	1,286	22,896	\$ 502.5	\$ 9,372.4	5.6%	5.4%
	<b>15,468</b>	<b>435,322</b>	<b>\$ 2,441.6</b>	<b>\$ 218,605.9</b>	<b>3.6%</b>	<b>1.1%</b>

<sup>4</sup>Loans that were current on payments when Harvey made landfall and became ≥90 days in arrears, FCL, or REO within one year

## Hurricane Sandy (October 2012)

Making landfall on October 29, 2012, Hurricane Sandy was another large weather event that caused about \$65 billion in damage in the U.S. and killed 160 people. The impact of the storm was felt across the entire U.S. East Coast and left several million people across 15 states without power for several days. New York and New Jersey sustained significant property damage and the economic impact across affected areas was in the \$30–\$50 billion range.

Across all peril risk categories and mortgage loan-to-values, defaults rose post Sandy. As with Harvey, and likely to be the case with LA Fires, the riskiest property mortgages fared the worst. Defaults in February 2013 were 2–3 percentage points higher than in October of 2012, with the highest growth in defaults in the “Very High” and “Extreme” risk categorized properties.

Data from New Jersey, one sharply affected state, High-LTV loans saw a 3.4% increase in defaults. The properties impacted in this small state were lucrative, large loans with attractive financial profiles for the servicers.

### Superstorm Sandy: NJ High Loan-To-Value Mortgages Performance Post Landfall<sup>5</sup>

by Risk Score Range

Risk Score Range	Loans	Loans 90+Day Post Event: All	Loans 90+Day Post Event: Current at Event	90+Day Delinquency Rate Pre-Event: All	90+Day Delinquency Rate Post-Event: All	90+Day Delinquency Rate: Current at Event
Very Low	92,544	27,353	3,051	27.4%	29.6%	3.3%
Low	10,896	3,465	409	29.4%	31.8%	3.8%
Moderate	5,380	1,711	210	30.0%	31.8%	3.9%
High	2,470	729	84	28.5%	29.5%	3.4%
Very High	2,376	881	100	34.7%	37.1%	4.2%
Extreme	484	204	25	38.4%	42.1%	5.2%
<b>Total</b>	<b>114,150</b>	<b>34,343</b>	<b>3,879</b>	<b>27.9%</b>	<b>30.1%</b>	<b>3.4%</b>

## The Devil is in the Details

Generalizations are useful, but both location and property specificity are important in assessing financial risk from weather hazards. In floods, small height differences can cause large variances in financial impact.

Characteristics such as First-Floor Height are a critical structure-specific differentiator in determining losses. Differences in roof joisting and flammability determine roof resilience and can create stark side by side differences in homes. Granularity at scale is crucial in peril risk management.

## Insurance Challenges and Consumer Education

### Insurance Renewal Has Started to Cause Surprises

Insurance has always been the common risk mitigator of choice for homeowners across the variety of perils across the U.S. But increasingly, existing homeowners are finding availability and affordability surprises when renewing their insurance policies. Many insurers have raised premiums or withdrawn coverage citing reconstruction costs, peril risks, and regulatory impediments. When coverage is unavailable or unaffordable, homeowners must secure a new policy before their current one lapses. For homes with mortgages, owners’

risk being “assigned” Lender Placed Insurance (LPI) by the lender to remain compliant with loan requirements, private versions of which may cost more or provide weaker coverage. State-run programs offer last-resort options—these forced-placed policies typically have stricter limits and exclusions, and often a higher rate for coverage than traditional policies. Underinsurance is a risk in such cases and homeowners are left financially vulnerable if disaster repair costs exceed coverage.

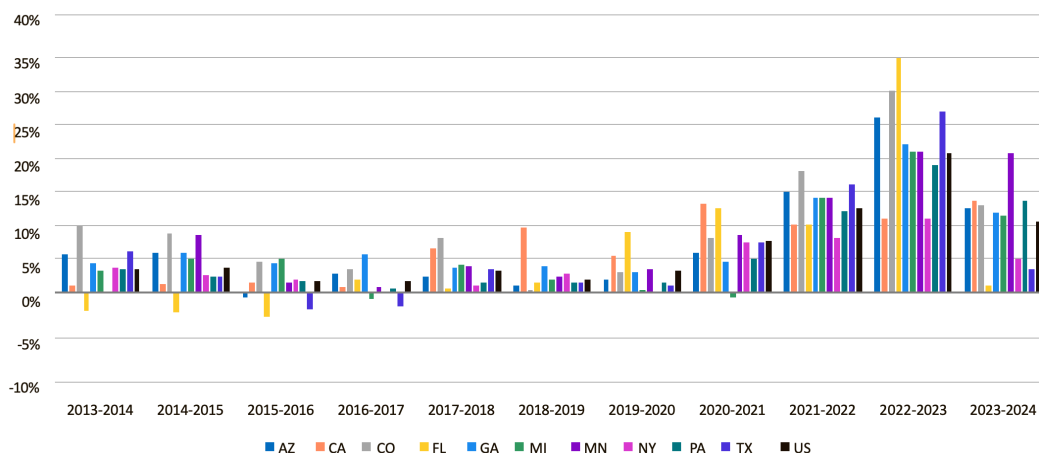
## Understanding Risk Is the First Step

For homeowners, understanding their property’s natural hazard risk helps them protect their assets. Actionable knowledge guides consumers to informed decisions when buying, selling, maintaining, or insuring a home in the face of natural disasters like floods, hail, wildfires, or hurricanes. Consumers continue to

face rising costs to manage natural hazard risk, shown in the chart of annual premium change below, and it is important that insurers, mortgage originators, and servicers all play roles in communicating coverage requirements to their clients.

Annual Change in Average Homeowner’s Annual Premium<sup>6</sup>

By State



## Real Estate Transactions Can Unveil Hidden Risks

Residential buyers and sellers often operate with different information and incentives. Sellers know the property insurance history and past events, but may not be eager to share this, let alone uncover new risks. Buyers rely on disclosures and public records. This information asymmetry can lead to surprises as

stakeholders near a transaction. Buyers may find the property’s total monthly payment including insurance is more expensive or prohibitive, and sellers may find their property difficult to market due to natural hazard risks. Both of these factors impede market flows and frustrate all stakeholders.

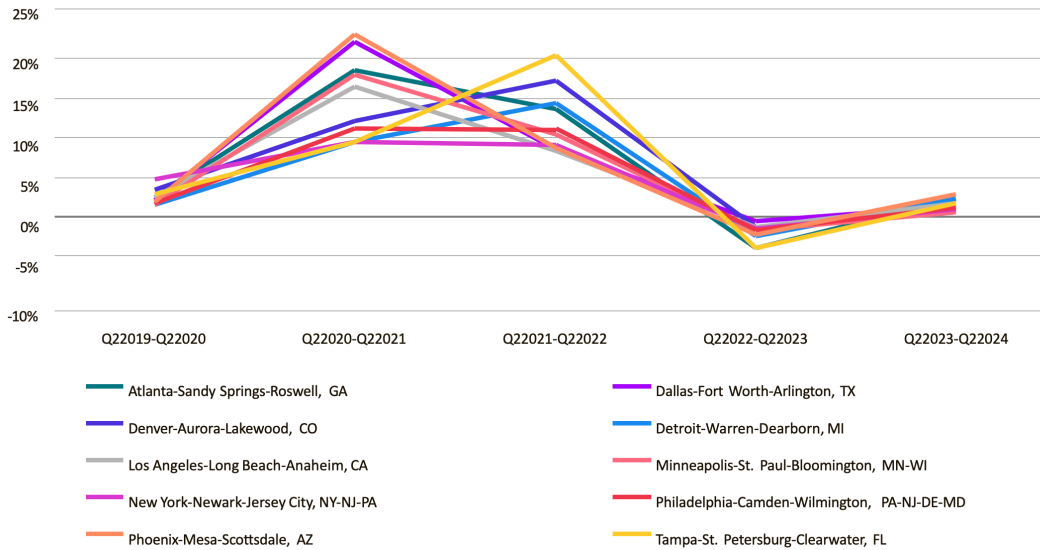
## Rising Reconstruction Cost Drives Premiums

Most homeowners’ insurance policies are based on reconstruction cost (the amount needed to rebuild in the event of total loss), not market value. Premiums are calculated as the product of Insurance Rate and

Reconstruction Cost. Premiums can rise simply due to increased reconstruction costs, even if insurance rates are unchanged. Homeowners have been feeling recent premium increases partly due to inflationary pressures on reconstruction costs, which are largely beyond their control.

### Annual Change in Average Estimated Reconstruction Cost?

By CBSA



### Premium Increases are Local, Despite Appearances

Regulators prohibit insurers from using loss experience from one state to justify rate changes in another. However, statewide losses can justify statewide rate increases. In states with homogeneous risk, this is intuitive. But in states like Illinois, with diverse peril exposure, rate hikes may seem unjustified to residents in lower-risk areas of the state.

For example, Illinois saw a 24% premium increase from 2022 to 2023, followed by a 14% rise from 2023 to 2024. This, despite populous Cook County (Chicago) being classified as “Very Low” risk (~9th percentile nationally). In looking more widely, however, the state’s geography and weather diversity contribute to its

overall risk profile and premium increases. Stretching nearly 400 miles from Lake Michigan to the confluence of the Ohio and Mississippi Rivers, Illinois encompasses both Humid Continental and Humid Subtropical weather patterns. Alexander County, located at the southern confluence, ranks in the 98th percentile for Inland Flood and All Perils risk. Additionally, Severe Convective Storms (SCS) are common during Illinois’

hot and humid spring and summer months. County-level SCS risk scores range from 4 (“Very Low”) to 67 (“Moderate”), and 2023 was an especially active season.

## Illinois Case Study of County Peril Risk Scores<sup>8</sup>

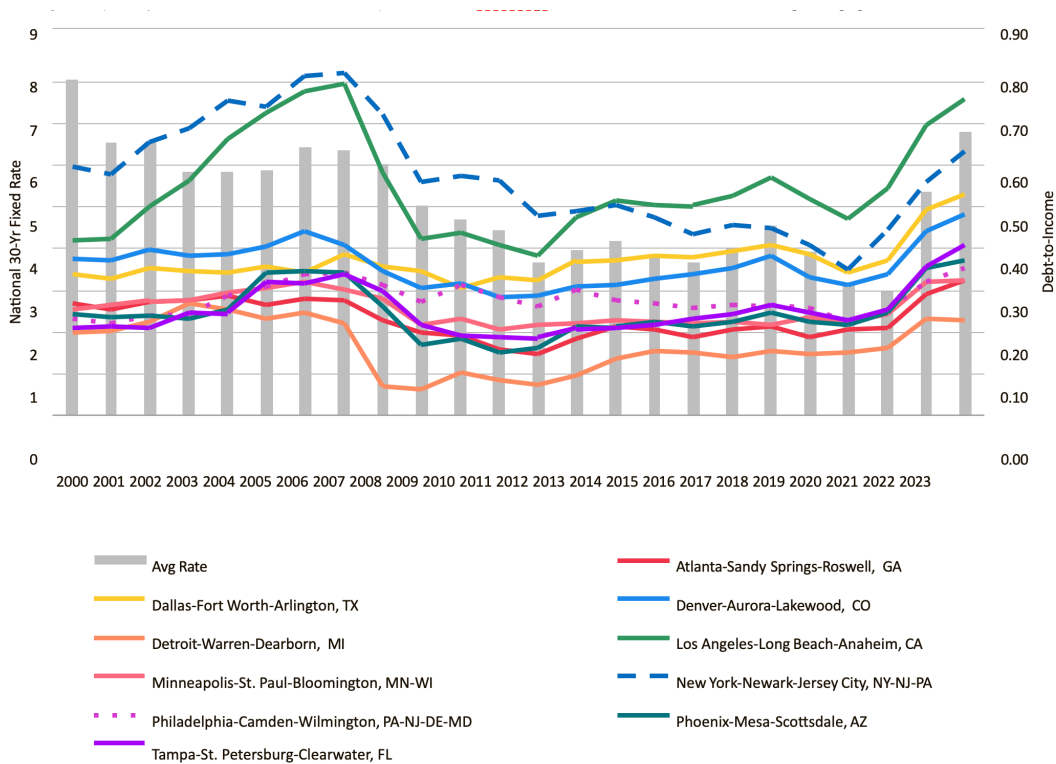
County	FIPS Geographic Code	Combined All Perils Average Annual Loss	Combined All Perils Risk Score (Low1-100 High)	Severe Convective Storm Risk Score (Low1-100 High)	Inland Flood Risk Score - Inland Flood Risk Score (Low1-100 High)
Cook	17031	0.001284	9	18	7
Lake	17097	0.001345	10	19	14
Wayne	17191	0.002784	43	67	14
Rock Island	17161	0.002894	45	33	64
Johnson	17087	0.004295	71	27	80
White	17193	0.004403	73	45	77
Calhoun	17013	0.004551	75	60	78

## Rising Insurance Costs Mute Affordability

Rising property prices coupled with higher mortgage, tax, and insurance rates have worsened home affordability across the nation. Expensive metros like New York and Los Angeles have become more expensive, and historically affordable places like Dallas and Denver are also becoming less affordable.

## Debt-to-Income<sup>9</sup>

PITI Payment (Principal, Interest, Taxes & Insurance) Fixed, 10% Downpay vs. Median Income and Prevailing Mortgage Interest Rates



## Well-Intentioned Lender-Placed Insurance Comes with Costs

While Lender Placed Insurance or LPI is a legal option for lenders to maintain their collateral insurance coverage, it comes with significant drawbacks for the borrower, leading to the “Tip-Over” effect:

- **Limited Coverage:** LPI often doesn’t include coverage for the homeowner’s personal property/contents, liability, or additional living expenses.
- **High Cost:** LPI premiums are typically much higher than a standard policy.
- **Financial Distress:** The high cost, coupled with limited coverage, can create a “Tip Over” effect where the shock of the forced premium drives the homeowner into more financial distress.

## Multiple Tools Needed to Solve Complex Insurance Problem

No single tool can solve the coverage, costs, exposure, and affordability gap overnight. Multiple actions by a variety of stakeholders could, however, help abate the diverse issues and slowly stem the increase in insurance costs.

### Insurance Product Solutions

- **Parametric Insurance:** This type of policy, which bases payouts on pre-defined event triggers (e.g., wind speed, flood height) rather than loss adjustment, offers rapid, transparent funds. It is used more by municipalities and commercial entities than residential customers. It serves as a top-end hedge and could complement National Flood Insurance Program (NFIP)’s capped coverage. However, its adoption is limited because the trigger points are often unlikely for residential risks.
- **GSE Mortgage Impairment (MI) Insurance:** Servicers purchase this to cover the lender’s interest in the event of errors and omissions or inadequate/lapsed borrower coverage. MI is a portfolio-level policy that helps servicers comply with GSE requirements but is not a full property damage policy for the homeowner.

### Market and Regulatory Solutions

- **More Accessible Insurance:** Purchasing adequate insurance from Federal Emergency Management Agency (FEMA) or private carriers before an event is more effective than seeking post-event disaster relief. Traditional carriers refusing to insure high-risk properties force homeowners to rely on the state-run Fair Access to Insurance Requirements (FAIR) Plan, which can result in underinsurance.
- **Pooling Diverse Risks:** Federal and state insurance pools could aggregate for affordability. Risk-pooling across state lines (e.g., NFIP) or loss capping via reinsurance may be viable solutions to ensure insurer market stability and affordably provide adequate coverage to consumers.

## Flood Insurance Could Be One Part of the Solution

The NFIP was established in 1968 to address the lack of affordable flood insurance following catastrophic events like the 1927 Mississippi River flood, which displaced over 700,000 people and caused over \$236M of damage. Private flood insurers left the market, and at the same time, the national population was growing in flood vulnerable areas like coastlines. These pressures “aligned people and policymakers to push for a government entity solely devoted to assisting and strengthening community resilience against floods”. Today, NFIP coverage is available in 22,600 participating communities, administered by FEMA.

Private flood insurance has re-entered the market in recent years, offering alternatives for non-participating

communities, excess coverage beyond NFIP limits (where policies are capped at \$250,000 for residential) and broader consumer choice.

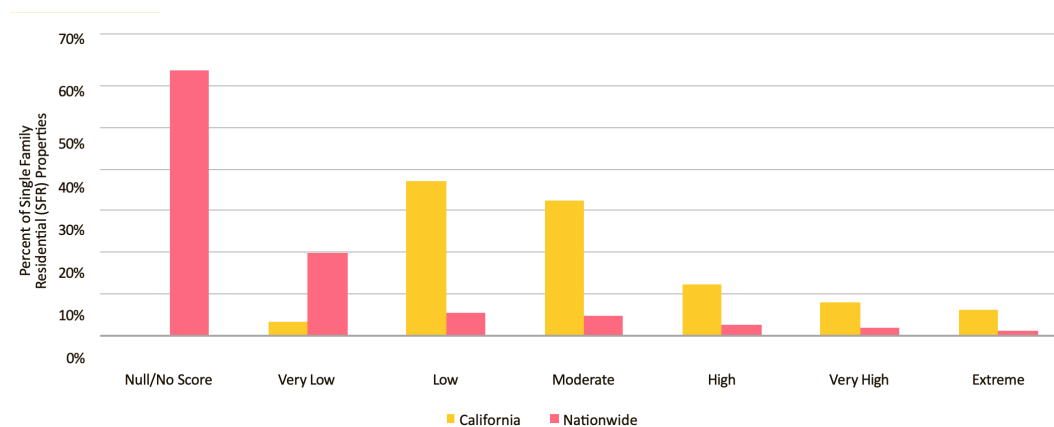
Flood insurance is required by lenders for homes in Special Flood Hazard Areas, but low risk does not mean no risk. For example, during Hurricane Harvey (2017), most flood-damaged homes were outside the 1-in-100-year flood zone and lacked coverage, leaving homeowners reliant on federal disaster relief. Purchasing adequate insurance from FEMA or private insurers prior to a flood event is more effective than seeking post-event disaster relief from FEMA.

## More Accessible Wildfire Insurance Could Also Help

Traditional carriers can refuse to insure high-risk properties in states such as California or Colorado, leaving homeowners to rely on the state-run FAIR Plan, which offers basic fire coverage with a \$3 million cap in California and more exclusions than standard policies. This often results in underinsurance, where policy holders and insurers battle to close the gap and reconcile costs on claims, incurring legal fees and customer dissatisfaction. California carries more Wildfire risk than the national average and this has created barriers to obtaining adequate coverage for high-risk properties.

### Current Wildfire Risk Score Distribution Single Family Residences<sup>10</sup>

California vs National



## Mortgage Servicers' Role in Proactive Education

Mortgage Servicers, who are often the first contact for borrowers facing payment shortfalls, need to move beyond explaining the “what” of escrow changes to the “why” of the change in taxes and insurance. The core goal is to educate servicers and lenders to help educate consumers. The target audience should include New Home Buyers, Existing Mortgage Holders, and Homeowners without a mortgage.

- **Proactive Communication:** Servicers can be proactive by attempting to inform the homeowner of rising costs prior to renewal. They must balance this with the risk of information fatigue, as borrowers may become numb if oversaturated. The message should be in a simplified tone that is not alarmist or too technical.
- **Offer Solutions:** Servicers can offer solutions such as a referral to a neutral party (e.g., “Click here to shop around for insurance”) or offer alternate carriers. However, they must be cautious, as providing specific guidance could lead to unintended consequences or liability related to the adequacy of coverage.
- **Conflict of Interest:** Hazard risk education should start early, at the realtor stage, but this can create a conflict

of interest as sellers and realtors may not be eager to share information that could dissuade a buyer.

- **Mitigation through Escrow:** The servicer may provide an interest-free loan to cover an escrow shortage. A key lever servicers can use to ease this financial strain is to offer a longer period than the standard 12 months to pay back the shortage.

## Where to Find Government Hazard Risk Information

### Flood Risk Awareness

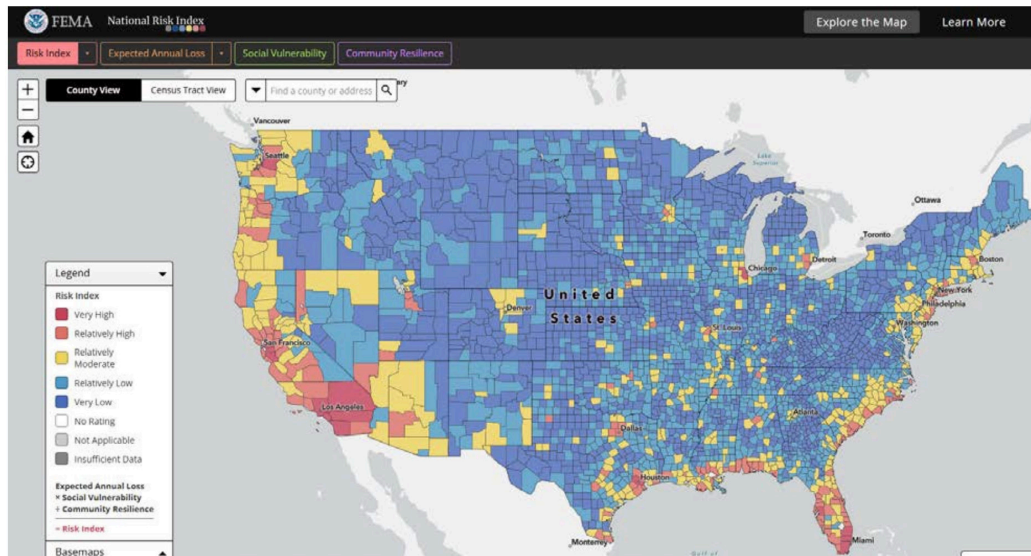
This is slightly more uniform than other hazards. Flood insurance is primarily managed through the National Flood Insurance Program (NFIP). FEMA's Flood Map Service Center allows users to view flood zone information, but it's important to know that flood risk is present, and sometimes significant, well outside the flood zone. NFIP's Risk Rating 2.0 provides more granular and equitable pricing. Flood insurance is required for homes in Special Flood Hazard Areas, but low risk does not mean no risk.

Even if a property is not in a high-risk zone, flood insurance may be necessary, despite it not being required. Most insurance policies don't cover flood damage, and properties in moderate-risk areas are five times more likely to experience flooding than fire over 30 years. NFIP policies can cost less than \$400 annually.

### National Risk Index (NRI) by FEMA

The NRI is a publicly available dataset and online tool designed to provide a holistic view of natural hazard risk for every U.S. County and Census tract. Even though it is not specific to a property, it is accessible to a wide audience, including property owners and the insurance community. The NRI calculates risk based on three main components:

- **Expected Annual Loss (EAL):** The average economic loss from 18 natural hazards.
- **Social Vulnerability:** The susceptibility of the local population to the adverse impacts of hazards.
- **Community Resilience:** The community's capacity to withstand and recover from natural hazards.



## Non-Flood Weather Hazard Risk Awareness

Unlike flood risk information, awareness and information here is more fragmented. Risks like wildfire, wind, and hail are covered by private insurance and overseen by state regulatory agencies. The most reliable way to understand how risk affects insurance costs is through direct contact with an agent or insurer for the current policy. Homeowners can also find state and local building codes by visiting the websites of their local building department or zoning board. This information may assist homeowners in understanding current requirements for buildings, especially if they are considering the purchase of an older home.

## Resilient Properties: Building for Now and In the Future

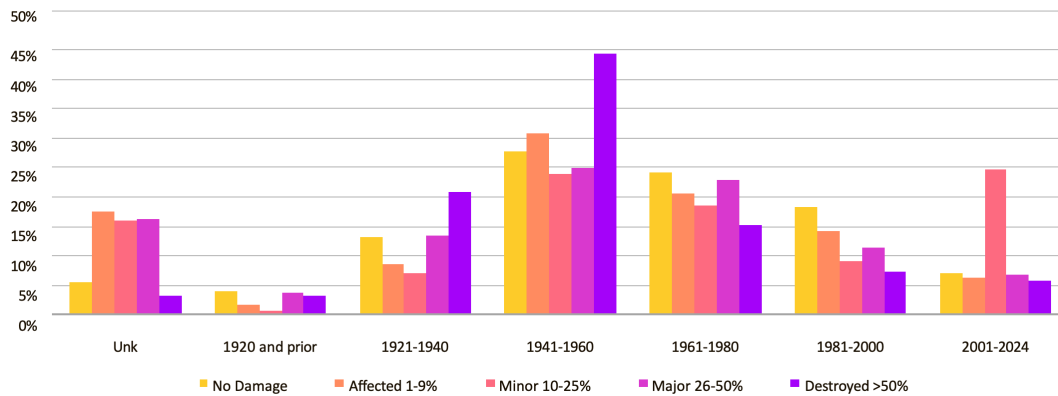
Resilient construction and retrofitting are key strategies for reducing property losses from natural hazards. This should be viewed as an action consumers can take to control their property's risk, and one that could reduce insurance premiums.

### Modern Building Codes Make Properties More Resilient

Newer homes built under updated and enforced building codes — like California's Chapter 7A — suffered significantly less damage in the January 2025 Southern California wildfires due to fire-resistant materials and structural standards. Older homes were disproportionately destroyed, underscoring the importance of modern materials and regulations. Over two-thirds of destroyed homes were built before 1960, prior to modern codes.

#### Los Angeles Wildfires January 2025<sup>11</sup>

Year Built Distribution by Damage Level

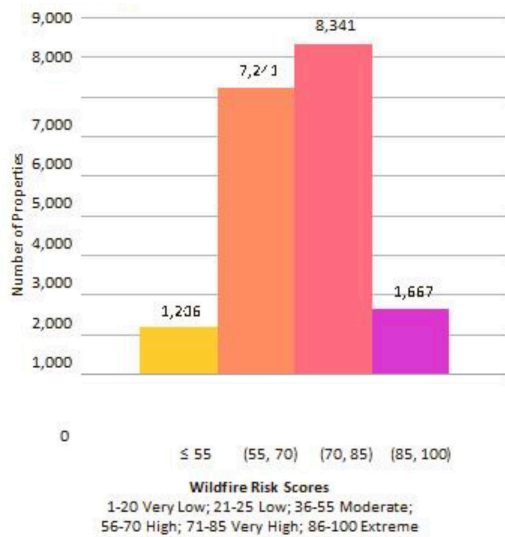


Wildfire Risk scores also skewed higher in the impacted area:

- 60% of properties had “High,” “Very High,” or “Extreme” wildfire risk ratings.
- Comparatively, only 15% of LA County, 26% of California, and 6% of nationwide properties fall into these categories.

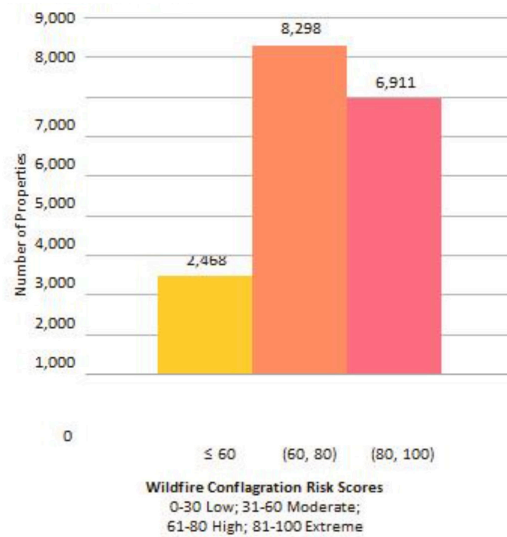
## LA County Fire Perimeter<sup>12</sup>

Wildfire Risk Scores



## LA County Fire Perimeter<sup>13</sup>

Conflagration Risk Scores



## Building Regulations Shape Risk Exposure

Florida's strict building codes are creating safer, more durable homes. An example of this is in Gadsden County, FL, which averages a significantly lower All Perils risk score (12th percentile) than Seminole County, GA (74th percentile), despite Gadsden's greater exposure to coastal perils. This resilience is linked to long-standing wind codes and features like higher average first-floor heights in Gadsden. The Florida market is now perceived to be stabilizing due to these regulatory changes and laws.



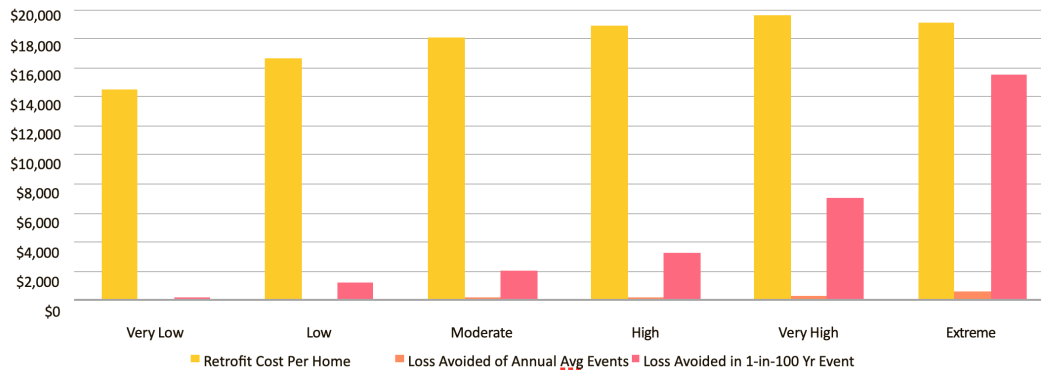
## Retrofitting for Severe Storms Can be Cost Effective

Building resilience can also come from retrofits on existing homes. Home hardening measures like the Insurance Institute for Business and Home Safety (IBHS) FORTIFIED roofing program in Alabama drive national standards for hazard resilience and should be encouraged.

- **Retrofit ROI:** In the Dallas metro area, roof upgrades on “Extreme” risk homes show that the loss avoided in a single 1-in-100-year event is 81% of its retrofit cost.
- **Affordability Challenge:** Most people are in the retrofit category and need a simple way to do a break-even analysis of the cost versus the historical and expected impact.

## Dallas Retrofit Cost-Benefit Analysis<sup>14</sup>

For Severe Convective Storm



## Resilience and Insurance Optimization for Homeowners

Homeowners should proactively contact their insurance company or agent for a list of improvements that they can do to potentially lower their insurance costs. They should:

- **Identify Upgrades:** Look for home improvements that can lower insurance costs, such as installing impact-resistant roofing.
- **Discuss with Insurance Agent:** Reach out to the insurance agent to discuss these upgrades and their potential impact on insurance premiums, including available discounts.
- **Review the Policy:** Ensure that the policy reflects any new improvements made to the home, as these can affect coverage and premiums.

## Financing and Incentives

Retrofitting addresses the source of risk, but costs pose an affordability issue. The industry is exploring emerging vehicles to finance resilience such as Disaster Savings Accounts (pre-tax contributions), lower cost rebuilding loans and the concept of portable accounts that follow the homeowner, not the house, for resilience needs. Federal, state and local incentives may also be available for specific retrofit or adaptation projects.

## Risky Dallas Homes Show Strong Retrofit ROI From 1-in-100 Year Events

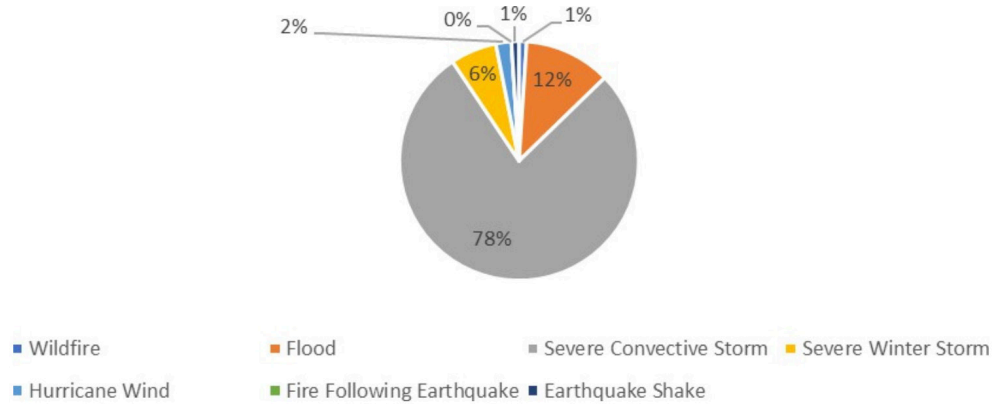
On the surface, data for Dallas homes with “Very Low” to “Moderate” risk of severe convective storms shows little benefit in losses avoided versus retrofit cost — but such homes are few (only 0.3% of homes). Even for “Extreme” risk homes, accumulating “average” annual losses takes 34 years to offset retrofit costs. But the benefits become quickly apparent when highly impactful events are considered — such as 1-in-100-year events. The per home loss avoided in a single such event for such homes is 81% of its retrofit costs. Similarly, “Very High” and “High” risk homes realize 36% and 17% ROI for such events — this corresponds to a three-event and six-event payback.

### 1. in-100-year Events Happen With 1% Frequency ANY Year

Having these low-probability events occur does not reduce future event likelihood because the odds reset each year. This means it is possible to have two “100-year” events in consecutive years. Large hail, damaging winds,

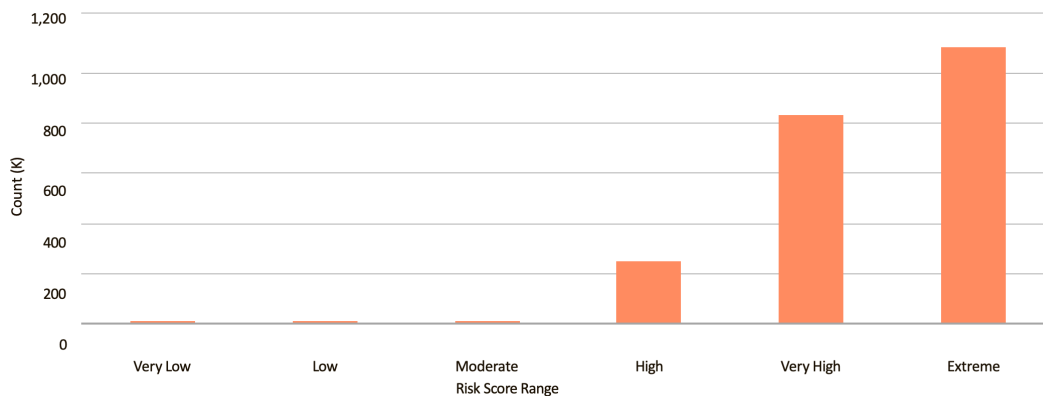
and tornadoes occur nearly every year in the Dallas metro area. Severe Convective Storms, which includes these phenomena, account for 78% of natural hazard property losses and 88% of Dallas metro homes are categorized as “Very High” and “Extreme” risk for SCS compared to the national average. That’s why average annual loss analysis of the Dallas metro area indicates a 34-year payback period by retrofitting “Extreme” risk homes -long term average losses are not caused by catastrophic events. Widespread disaster occurs in impactful single events, typically characterized as 1-in-100-year events.

Dallas Natural Hazard Peril Distribution<sup>15</sup>



Dallas Severe Convective Storm Risk Score Distribution<sup>16</sup>

Single Family Residences



### Building Resilience Today Reduces Losses Tomorrow

Resilient construction is the most effective defense against natural disasters — data across geographies and hazards shows that it offers powerful protection. January 2025 LA wildfires showed that newer, fire-resistant homes suffered significantly less damage. Comparing Gadsden, FL and Seminole, GA highlights the protective power of strict building codes from Hurricane Winds and Inland Floods among others. Retrofitting roofs in Dallas offer a practical, cost-effective way to reduce losses from Severe Convective Storms.

Natural hazards are geographically concentrated, and occur seasonally, but financial impact is property specific,

and driven by vulnerability. Each region faces unique challenges, and successful resilience strategies must begin with a deep understanding of local property stock exposure to specific perils across individual properties to entire communities.

## Conclusion

Balancing insurance rate adequacy with affordability is a challenge for borrowers, lenders and servicers, insurers and policyholders, and the housing finance ecosystem is increasingly exposed to the asymmetric risk of natural hazards. The financial risk is not only a matter of high insurance rates and affordability, but a rising confluence of increasing peril severity, rising reconstruction costs, and a fractured approach to risk education and property resilience.

To ensure market stability and affordably provide adequate coverage to consumers, a cohesive, multi-stakeholder strategy is required:

- Servicers must leverage data to be proactive communicators on risk and cost increases (the “why,” not just the “what”), offering financial levers like extended escrow shortage repayment terms.
- The industry must prioritize consumer education to elevate risk awareness before the transaction and mitigate conflicts of interest. Private, property-specific data and risk and resilience adaptation analytics from Cotality and public tools like the FEMA National Risk Index offer accessible, multi-factor risk data to help property owners understand their hazard profile and what options they might consider.
- Homeowners should also proactively engage their insurance agents to discuss mitigation discounts and ensure policies reflect home improvements.
- Public policy and private investment must encourage widespread resilience and retrofitting through mechanisms like the IBHS FORTIFIED program and new financing vehicles (e.g., portable disaster savings accounts). Homeowners should consult local building departments for applicable building codes to assist in understanding current requirements.
- Solutions like risk-pooling across state lines (e.g., NFIP) and new financial products (e.g., parametric insurance) should be explored to protect both consumers and the mortgage finance system from catastrophic losses.

By measuring and acting on granular, property-specific hazard risk, the industry can better manage, model, and mitigate the impact of weather events, ultimately protecting the financial viability of properties and the security of homeownership.

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## About Cotality

Cotality accelerates data, insights, and workflows across the property ecosystem to enable industry professionals to surpass their ambitions and impact society. With billions of real-time data signals across the life cycle of a property, we unearth hidden risks and transformative opportunities for agents, lenders, carriers, and innovators.

For more information, please visit [www.cotality.com](http://www.cotality.com)

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