

Building Financial Security and Resilience in Real Estate: Expanding Federal Disaster Insurance Programs

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In this article, the author says that expanding federal disaster insurance programs to include wind and fire coverage would represent a critical step toward addressing the growing severity of natural disasters.

The growing severity of natural disasters has placed the American real estate market under a level of strain that has not been seen in previous generations. Hurricanes that once seemed to arrive every few years now strike with greater frequency, and recently in clusters. Wildfires that once were contained to remote hillsides now rage through suburbs and towns, turning entire communities into ash. Floods appear in inland regions, overwhelming infrastructure and producing billions of dollars in losses.

The losses from disasters in the United States have nearly tripled in recent years in comparison to historical averages, exceeding \$126 billion annually. The cumulative damages over the last forty-five years total nearly \$3 trillion,¹ underscoring the extraordinary burden that disasters place on households, businesses, and municipalities. Substantially all of these damages revolve around real estate because it is the foundation of household wealth and municipal financial stability. The

value of an entire community erodes when homes and businesses are destroyed or made uninsurable. Mortgage markets and property tax bases shrink; the broader economy suffers destabilization.

Although arguments can be made against expanding the role of government in the insurance marketplace, the fact remains that federal insurance programs have provided a crucial backstop against disaster losses. The National Flood Insurance Program (NFIP), though not without its faults, has offered protection against flood losses where private insurers withdrew from the market or priced coverage beyond affordability. The presence of this program has allowed families to rebuild homes, businesses to reopen, and local governments to restore infrastructure more quickly than would otherwise have been possible.

Yet the scope of the NFIP highlights the limitations of the current federal protective ecosystem. Wind damage from hurricanes and fire damage from wildfires, two of the most

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destructive categories of modern catastrophe,² remain largely uncovered by federal programs. Property owners must turn to private insurers, many of whom are retreating from the highest-risk markets or drastically raising premiums. In May 2025, State Farm gained permission to raise premiums by 17% on all its home insurance customers in California.³ As a result, millions of households and businesses remain exposed to devastating financial consequences.

Consideration should be given to expanding federal disaster insurance programs to include wind and fire coverage. This expansion would have profound implications for the stability of real estate markets, ensuring that properties remain insurable, mortgage lending remains viable, and municipal tax bases remain intact. The integration of premium financing with federal programs could further facilitate a powerful synergy, allowing greater participation, while maintaining the benefits of an insurance agent relationship. This approach represents a path forward that addresses the immediate economic risks of disasters and the long-term resilience of the real estate sector.

THE EVER-RISING COSTS OF NATURAL DISASTERS

Recent decades have made clear that natural disasters are recurring features of the American landscape. The damage from hurricanes alone has risen dramatically, with 2024 offering two devastating examples. Hurricane Helene, initially forecasted to veer offshore, delivered an unexpected blow to North Carolina, inflicting nearly \$79 billion in damage. Before recovery could begin, Hurricane Milton followed, producing an additional \$34 billion in losses. Thousands of properties were flooded,

and the NFIP became an indispensable source of relief for those with coverage. Still, many property owners discovered that they had no protection against the hurricane winds that ripped through their homes and businesses.

On the west coast, wildfires have escalated into disasters of unprecedented scale. California's wildfire season, once confined to summer months, now stretches year-round, driven by hotter temperatures and drier conditions. The Los Angeles wildfires of January 2025 produced an unfathomable \$250 billion in damages.⁴ Entire towns were destroyed, thousands displaced, and many forced into bankruptcy because fire insurance had become either unavailable or prohibitively expensive. Federal programs such as FEMA disaster relief provided some aid, and crop insurance helped farmers offset agricultural losses, but there was no national insurance framework to cover fire damage to homes and businesses. State-level insurance pools proved insufficient, and private insurers sought to increase premiums by double digits or withdraw altogether, leaving families and real estate markets on unstable ground.

Flooding in Texas during the summer of 2025 further underscored the weaknesses of current insurance structures. Even with the existence of the NFIP, only a small fraction of households participated in the program. In Texas, just 7 percent of homes carry flood insurance, and in inland areas where floods occurred, that number falls to a mere 2 percent.⁵ The economic damage, expected to exceed \$20 billion, fell heavily on property owners who lacked coverage. These examples reveal not only the increasing frequency and scale of disasters but also the systemic vulnerabilities

that emerge when federal insurance programs fail to cover the full spectrum of risks.

FEDERAL INSURANCE BRINGS STABILITY TO REAL ESTATE

The real estate market is uniquely sensitive to the presence or absence of adequate insurance coverage. The ability to finance a home or commercial property rests on the stakeholders' confidence that insurance exists to protect the borrower and lender. When disasters render entire regions uninsurable, mortgage lending and development halts, and property values plummet. Municipal governments, which depend heavily on property taxes to fund schools, infrastructure, and essential services, lose revenue when property values collapse. The absence of insurance coverage therefore reverberates far beyond the property itself; it destabilizes the entire economic network of a community.

Federal insurance programs can fill a gap that private insurers may not reliably address. Though not without its faults, the NFIP has demonstrated that distributing risks across a national pool makes coverage affordable and sustainable, particularly in high-risk regions. By offering coverage where private markets fail, federal programs allow households to remain in their homes, businesses to continue operations, and municipalities to sustain tax bases. This stabilizing effect preserves real estate values and supports the broader credit markets on which residential and commercial development depend.

The expansion of these programs to include wind and fire coverage would create a comprehensive safety net that addresses the most destructive and costly categories of disasters. By closing these critical gaps, federal insur-

ance programs would help prevent the economic spiral that occurs when disasters render properties uninsurable and communities financially untenable. These programs would ensure that the real estate sector continues to serve as a foundation of household wealth and national economic growth in the face of climate risks.

DESIGNING FEDERAL PROGRAMS FOR WIND AND FIRE COVERAGE

The design of federal disaster insurance programs requires strategic planning to ensure that they are effective and sustainable in the face of growing claims. A National Wind Insurance Program (NWIP) and a National Wildfire Insurance Program (NWFIP) would need to be structured in a way that balances affordability with fiscal responsibility, encouraging widespread participation while safeguarding against insolvency. The foundation already exists in the framework of the NFIP. However, the NFIP's challenges also illustrate the need for improvements in risk modeling, premium pricing, and, most importantly, participation incentives.

The NWIP could provide coverage for damage caused by hurricanes, tornadoes, and other severe storms. By distributing risk across a large national pool, such a program would be able to offer more affordable premiums in coastal states, where the private market is either withdrawing or charging prices that few can afford. Similarly, the NWFIP would address a growing crisis in western states, where longer and more destructive fire seasons have rendered large portions of the housing market uninsurable. Without such a program, private insurers will continue to raise premiums, leav-

ing homeowners and investors unable to maintain financial stability.

Both programs would need to incorporate measures that encourage preventative risk mitigation. Property owners who proactively adopt fire-resistant landscaping, upgrade to wind-resistant building materials, or retrofit homes to meet modern safety standards should be rewarded with lower premiums. At the community level, municipalities that invest in resilience infrastructure should benefit from reduced costs for their residents. These incentives would help make the programs financially sustainable and drive a culture of resilience that reduces long-term losses. By combining coverage with prevention incentives, federal programs can provide immediate financial protection and promote lasting reductions in vulnerability.

Federal programs could offer premium discounts to property owners who adopt measures such as installing fire-resistant materials, hurricane shutters, or upgrading roofs to withstand high winds. The Institute for Business & Home Safety (IBHS) is a non-profit organization that takes a more scientific approach to advance the industry's understanding to reduce catastrophic losses through better building practices and materials.⁶ This has led to solutions such as the sealed roof deck model, which has now been incorporated into the Florida building code. They have also developed a "Wildfire Prepared Home," a set of mitigating actions and building approaches involving the type of roof, connected structures like fences and decks, ember- and flame-resistant vents.

The administration of these programs would most logically fall under the Federal Emer-

gency Management Agency (FEMA), which already oversees the NFIP and coordinates disaster recovery efforts. By aligning wind and wildfire insurance with FEMA's existing structures, the programs could operate within a familiar regulatory environment, while enjoying synergistic economies of scale. This would also create consistency across coverage types, ensuring that property owners understand the availability and scope of protection.

CHALLENGES FACED BY FEDERAL DISASTER INSURANCE PROGRAMS

While the benefits of federal disaster insurance programs are clear, the challenges cannot be underestimated. As the insurable losses from disasters grow, claims will rise correspondingly. Without careful management, there is a risk that new federal programs could face deficits like those encountered by the NFIP. To prevent this outcome, it will be necessary to employ more advanced actuarial strategies, incorporate updated climate risk models, and explore reinsurance structures that spread catastrophic risk further.

Participation rates are critical to program success. One of the major weaknesses of the NFIP has been low enrollment, particularly in inland regions where flood risks are underestimated by property owners. Without broad participation, the financial base of federal programs becomes too narrow to absorb major disasters. Overcoming this challenge will require a combination of public education campaigns, integration with mortgage lending requirements, and possibly even automatic enrollment mechanisms tied to property ownership in high-risk areas. By making participation widespread, programs can maintain affordable premiums while ensuring solvency.

Affordability itself poses another challenge. Premiums must remain low enough that households and businesses are willing to participate, yet high enough to reflect risk and avoid excessive federal subsidies. Achieving this balance will require innovative pricing models that spread costs across high-risk and lower-risk participants while ensuring fairness. Compounding the affordability problem, there are the overall trends in the rising costs for homes and higher mortgage rates. According to analyses by the Federal Reserve, new single-family homes for sale surpassed 500,000 in July 2025.⁷ This means fewer real estate transactions are occurring. Levels this high were last seen before the Great Financial Crisis of 2008–2009. The rise in the foundational costs of home ownership, combined with rising insurance costs, can make requiring disaster insurance more difficult in low-risk areas for risk pooling purposes.

There are also political and logistical obstacles to program expansion. Implementing national insurance programs requires bipartisan support and coordination across multiple agencies. Resistance may arise from private insurers concerned about competition, or from taxpayers wary of increased federal obligations. By using the NFIP as a model, while focusing on fixing the key issues around participation rates, the expanded programs can succeed. Ultimately, the cost of doing nothing far outweighs the cost of proactive insurance programs.

REAL ESTATE IMPLICATIONS OF COMPREHENSIVE COVERAGE

The expansion of federal disaster insurance programs to include wind and fire would have profound implications for real estate markets

nationwide. For homeowners, the availability of affordable coverage would provide confidence that their largest financial asset is protected against catastrophic loss. This would reduce the risk of mortgage defaults following disasters. For investors and developers, the availability of insurance would allow projects in high-risk regions to proceed without the looming danger of unmanageable exposure.

Municipalities would benefit significantly from expanded coverage. As discussed, property taxes form the backbone of local government finance, by funding schools, infrastructure, and community programs. When disasters destroy properties or render them uninsurable, tax bases shrink, creating fiscal crises at the very moment when resources are most needed for recovery. Federal insurance programs mitigate this risk by ensuring that property owners can rebuild quickly, restoring property values and tax revenues.

From a broader macroeconomic perspective, the existence of national wind and wildfire insurance programs would reduce volatility in property values. Currently, real estate markets in high-risk regions face sharp fluctuations driven by the availability of private insurance. When insurers withdraw or raise premiums, dramatically, property values can fall almost overnight. This has occurred in Floridian coastal areas as private insurers have fled the state. Federal programs would introduce a stabilizing factor, ensuring that coverage remains available regardless of private market conditions.

THE ROLE OF INSURANCE PREMIUM FINANCING AS A COMPLEMENTARY TOOL

The expansion of federal disaster insurance

programs would address the challenge of coverage availability, but the cost of premiums presents another obstacle often preventing property owners from participating. Over the last twenty years, what was once the entire insurance premium has now simply amounted to a down payment on a current policy, leaving policyholders little or no choice but to finance their insurance premiums. This is true even with condominium associations and large commercial properties. Even when coverage is affordable relative to the level of protection it provides, many households and businesses struggle with the requirement to pay annual premiums in a single lump sum. This barrier is particularly significant for families with limited liquidity and for small businesses operating on tight budgets. Insurance premium financing offers a complementary solution that makes participation more accessible while also strengthening the sustainability of federal programs.

Premium financing allows property owners to spread the cost of coverage into manageable installments over time. Rather than facing a large upfront expense, policyholders can align payments with their income and cash flow, making enrollment feasible even for those with limited financial flexibility. In the context of federal disaster insurance, premium financing would reduce one of the most significant barriers to participation, ensuring that coverage is not only available but also practical. The wider the participation, the more financially sustainable federal programs become, as risks are distributed across larger pools of insured property owners.

This financing mechanism also carries important implications for compliance. If enrollment in wind and wildfire insurance were tied

to mortgage lending in high-risk areas, as flood insurance is today, premium financing would make it easier for property owners to meet requirements without financial hardship. Lenders would benefit from knowing that collateral is protected, while property owners would avoid the destabilizing effect of large annual costs. The synergy between mandatory coverage, federal programs, and financing structures creates a system in which each component reinforces the other, promoting participation and solvency.

MOVING TOWARDS A COMPREHENSIVE FRAMEWORK OF PROTECTION

The growing costs of natural disasters demand solutions that are as comprehensive as the risks themselves. The experiences of recent years demonstrate that piecemeal responses and limited insurance coverage are no longer sufficient. Floods, hurricanes, tornadoes, and wildfires have imposed damages measured in hundreds of billions of dollars, leaving property owners exposed and communities destabilized. Without intervention, these trends threaten the stability of real estate markets, the viability of mortgage lending, and the fiscal health of municipalities.

Expanding federal disaster insurance programs to include wind and fire coverage represents a critical step toward addressing these challenges. By providing structured coverage in areas where private insurers are retreating, federal programs would safeguard property owners and ensure continuity of communities. The integration of insurance premium financing strengthens this framework by making participation accessible to households and businesses, encouraging broader

enrollment to properly manage risk. Together, these measures create a comprehensive system in which availability, affordability, and accessibility are addressed.

Natural disasters are no longer rare anomalies. They are recurring features of a changing climate and an unavoidable element of modern life. The question is not whether they will occur, but whether communities will be prepared to withstand them. The increase in national wealth and insurable property only exacerbates the losses created when natural disasters strike. By expanding federal insurance programs and leveraging the synergies of premium financing, the nation can build a framework of protection that ensures financial security and resilience for generations to come. Insurance is more than a policy; it is

the promise that communities will endure. Wind and fire coverage must now be part of that promise.

NOTES:

¹ <https://coast.noaa.gov/states/fast-facts/hurricane-costs.html>.

² <https://www.standardpremium.com/industry-insight-the-role-of-federal-insurance-programs-in-mitigating-the-impact-of-natural-disasters>.

³ <https://www.theguardian.com/us-news/2025/may/14/california-state-farm-insurance-premium-increase>.

⁴ <https://www.latimes.com/business/story/2025-01-24/estimated-cost-of-fire-damage-balloons-to-more-than-250-billion>.

⁵ <https://www.nbcdfw.com/news/nbc-5-responds/most-texans-dont-have-insurance-coverage-for-floods/3882858/>.

⁶ <https://ibhs.org/>.

⁷ <https://fred.stlouisfed.org/series/HNFSUSNSA>.