The Rising Cost of Homeowners Insurance

Implications for the Mortgage Market

ECONOMIC MOBILITY PROJECT

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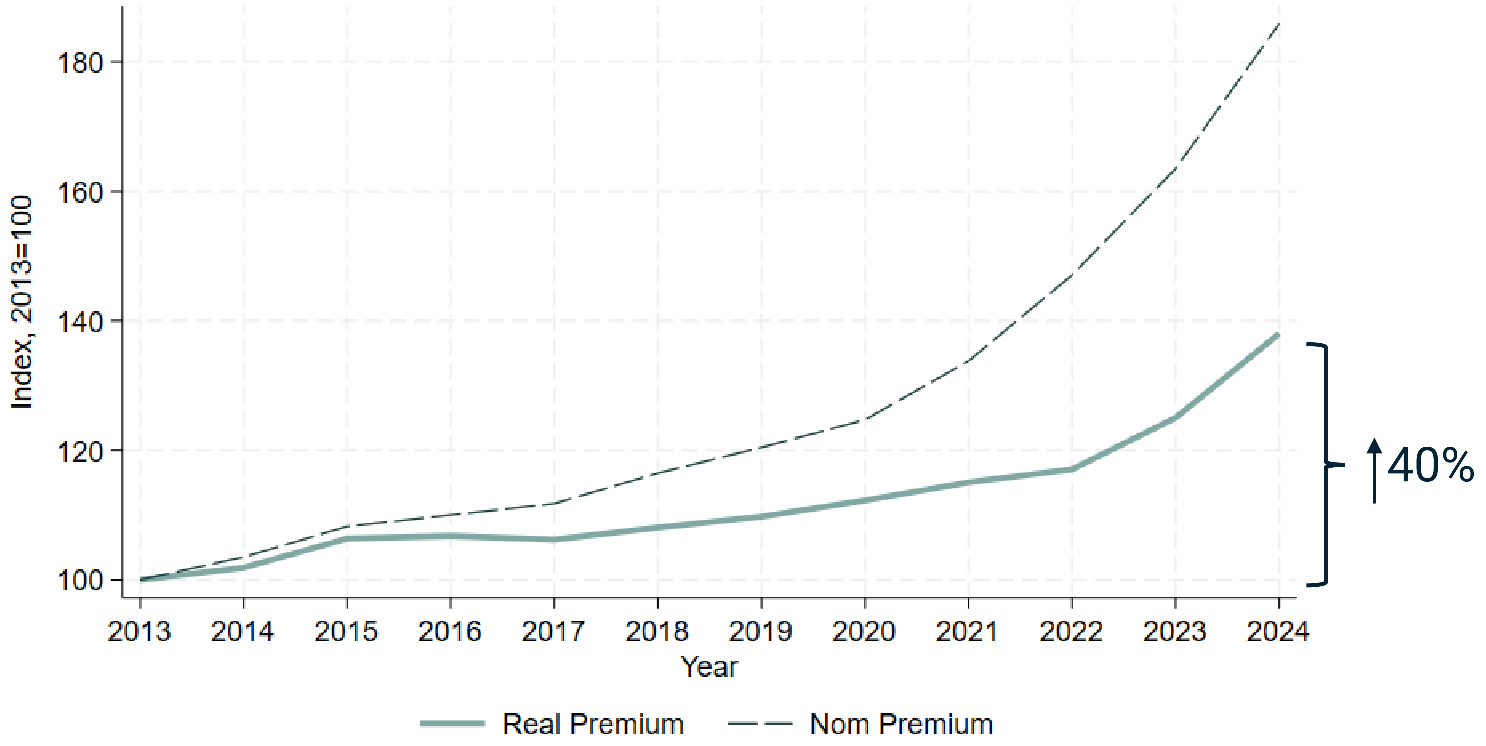
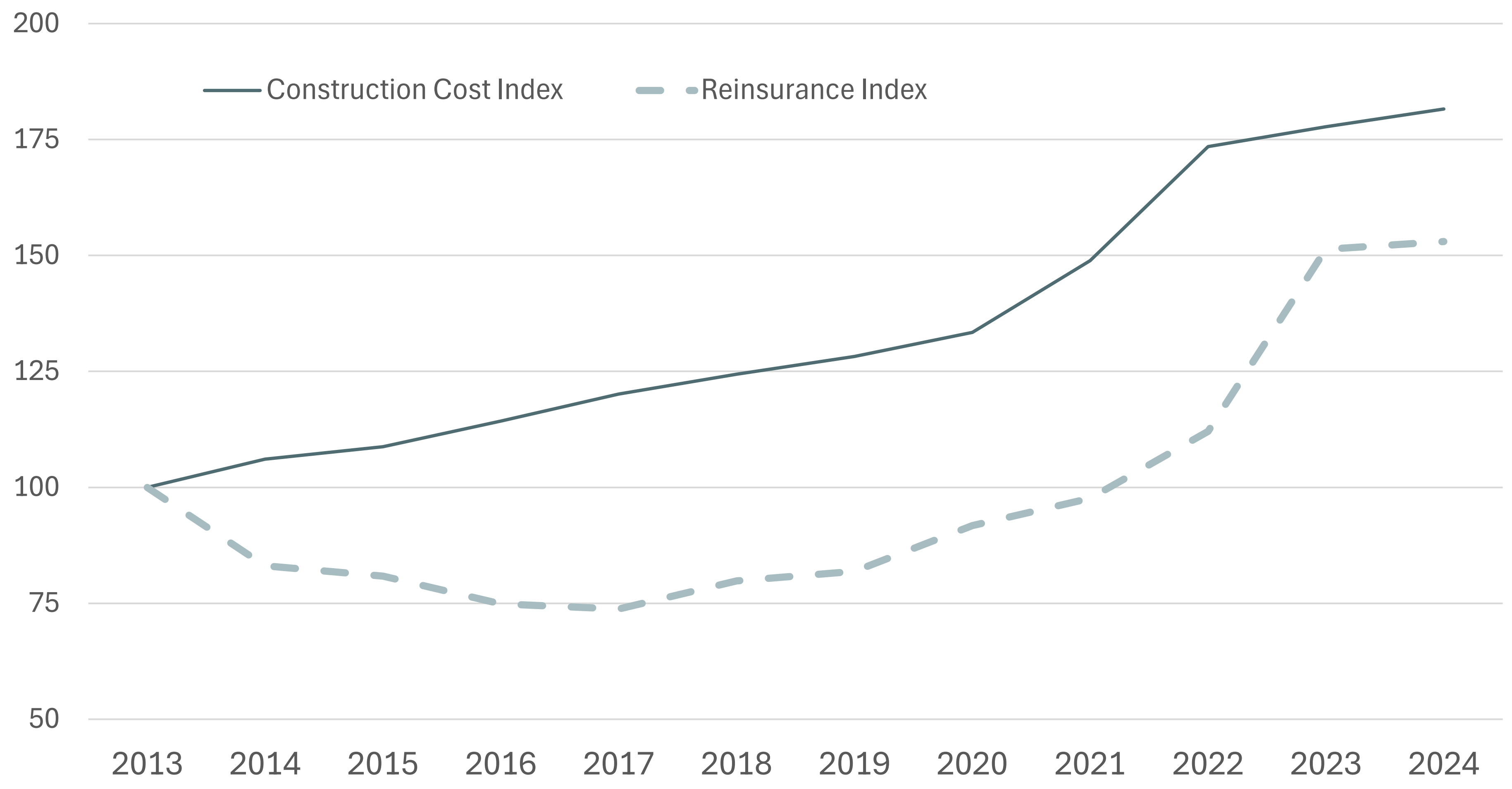
Growth in Homeowners Insurance Premiums



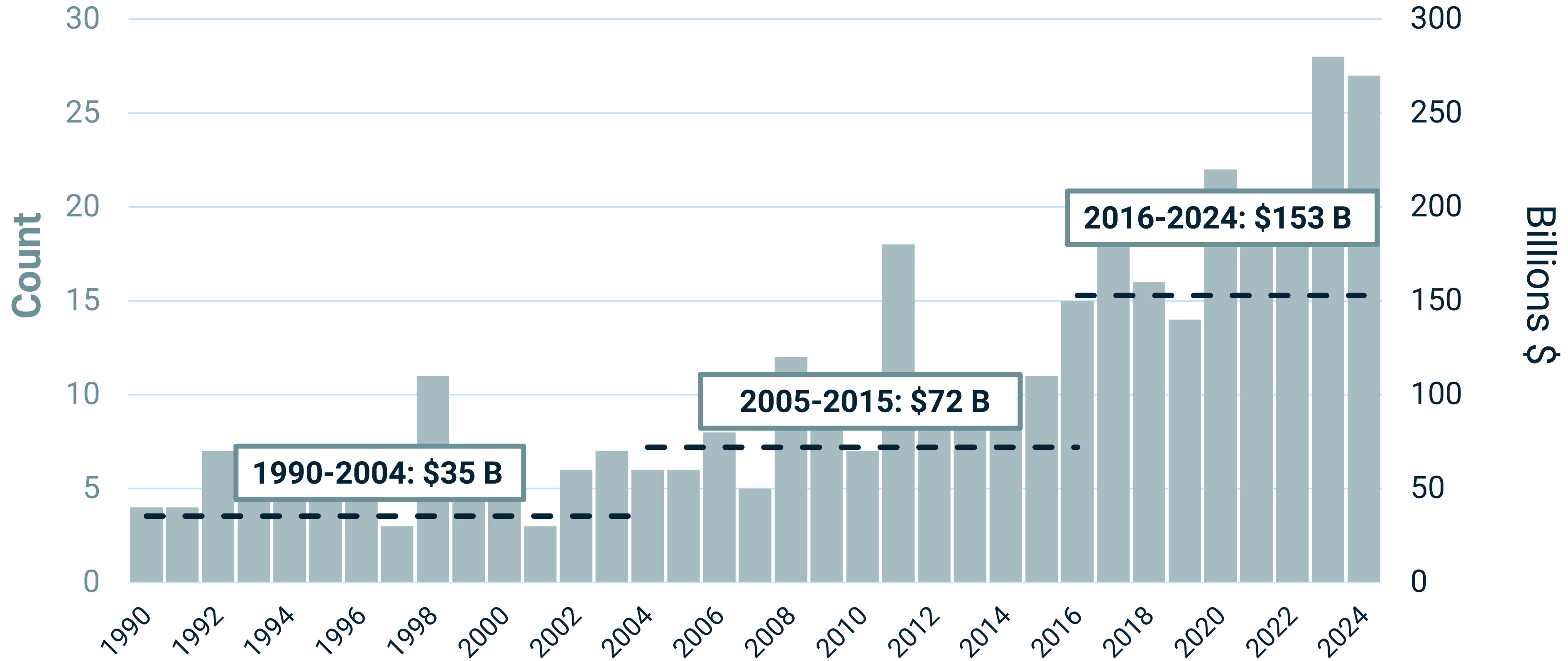
- Inflation adjusted premiums grew by 40% between 2013 and 2024

Construction and Reinsurance Costs



- Construction and reinsurance costs have been rising

Growth in the Number of $1B+ Weather Events



Source: NOAA

- Number of $1B+ weather events increased 6-fold between 1990 and 2025

Findings from Past Literature

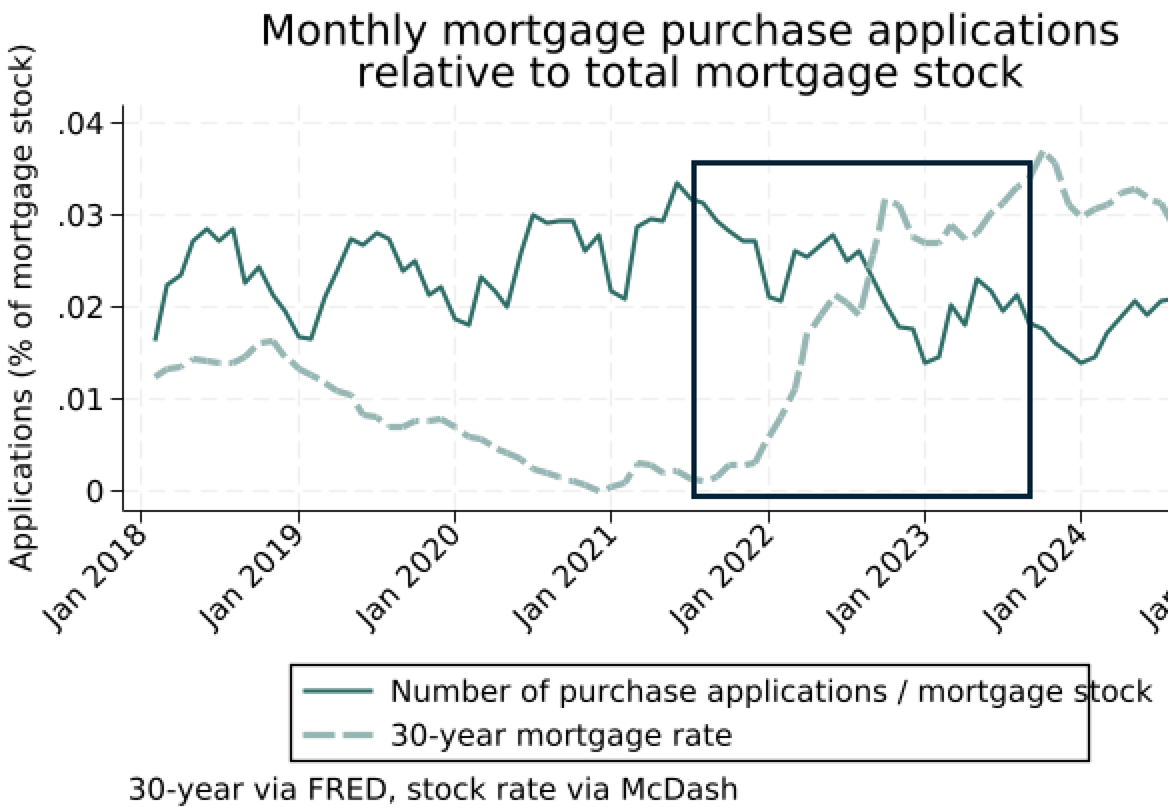
- Increased insurance premiums led to an increase in mortgage delinquency rates and prepayment
- Buyers shop on premium rather than coverage amount leading to underinsurance
- An increase in insurance premiums in Florida led to declines in home prices

Source: Ge et al (2025); Cookson et al (2025); Nyce et al (2015); and Eastman et al (2024)

Homeowners Insurance and the Mortgage Market

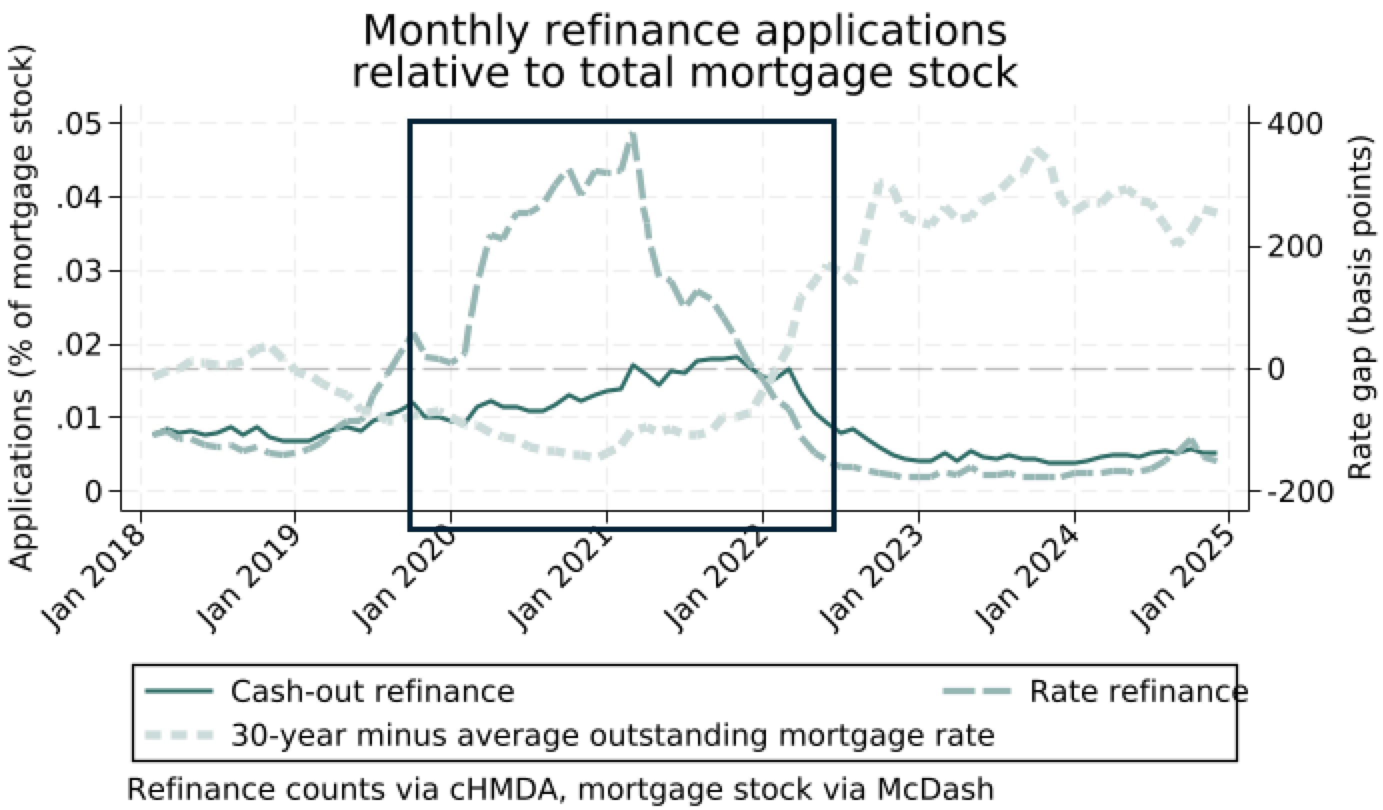
- How do increased insurance premiums impact access to mortgage lending?
  - Study correlations of insurance premiums with probability of application rejections
- Are denials related to insurance premiums?
  - Debt-to-income (DTI) ratio: debt includes insurance premiums
  - Insufficient collateral: higher premiums found to impact home value
- Use mortgage application (new purchase and refi) data from 2018 through 2024; insurance premium data at zip code level

Monthly Purchase Applications



- New purchase applications as a share of mortgages has fallen in the past few years as mortgage rates have climbed

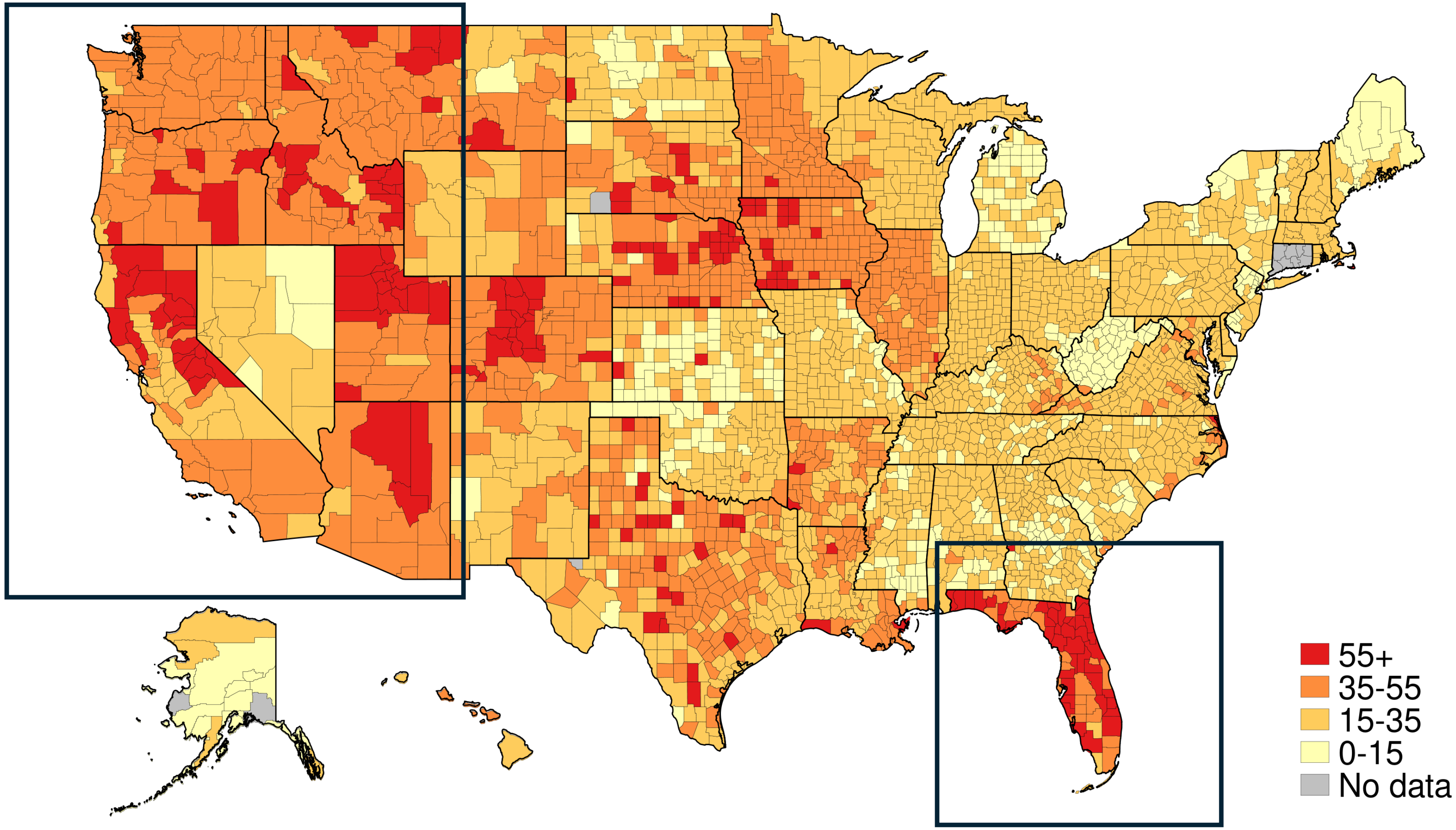
Monthly Refinance Applications



- Increased rate refi's in 2020 and 2021 when 30-year interest rates fell

Geographic Variation in Premium Changes

Change in Inflation Adjusted Premiums from 2018 to 2024



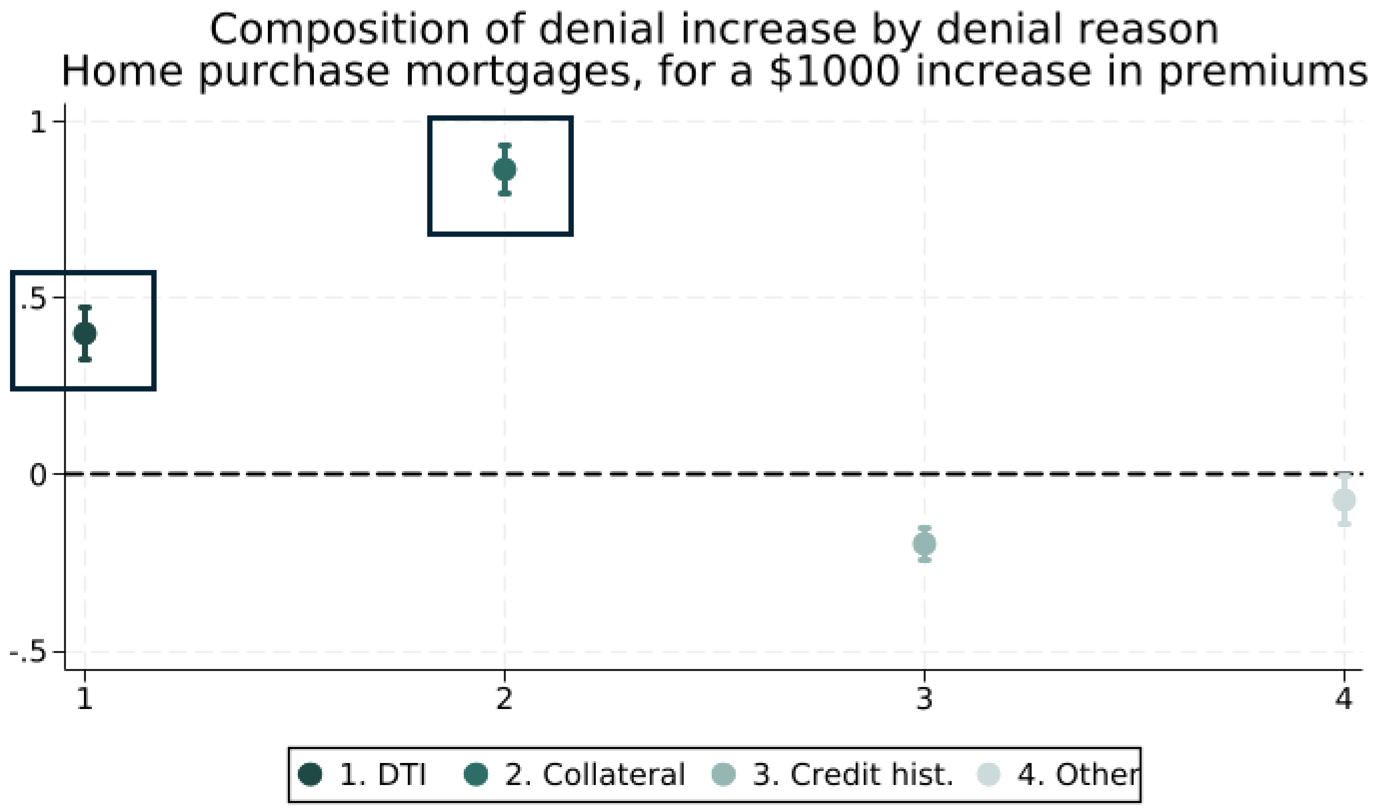
- Large price changes in areas exposed to disaster risks

Correlation between Rejection Rates and Premiums

- Regress indicator of application denial on average insurance premium in a zip code
  - Add controls to account for differences across zip codes and across applicants that could affect rejection rates

- Find that a $1000 increase in premiums is associated with an ***increased*** probability that an application is rejected
  - New purchase: 6%
  - Rate refi: 15%
  - Cash-out refi: 10%

Reasons For Denial: New Purchase



- Increased denials in high premium areas are due to DTI and collateral
- Similar pattern holds true for refi's

What happens if mortgage rates fall?

- Refinancing is an important mechanism for the transmission of monetary policy

- Past work finds increase in durable consumption (auto purchases) is associated with decreased mortgage payments

- Regional variation in consumption effects from monetary policy

Source: Bernanke and Gertler 1995; DiMaggio et al 2019; Agarwal et al 2023; Beraja et al 2019

Conclusion

- Rising insurance premiums are placing additional pressures on mortgage lending
- Areas with higher premiums see increased denials due to through DTI and insufficient collateral channels
- Increased denial rates could have implications for transmission of monetary policy

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