

A photograph of two men in a workshop. One man, wearing a red shirt and blue overalls, is leaning over a long wooden board. The other man, wearing a white t-shirt and a white headband with 'KAYAK' and 'DYRAHZ' written on it, is standing next to him, gesturing with his hands. The background shows a workshop with various tools and materials.

Improving Insurability Through Rehab

How Insurers Benefit from the
Housing Rehabilitation Efforts of
NeighborWorks® Organizations

NeighborWorks®
**Insurance
Alliance**

A small inset image showing an aerial view of a city street with several buildings and cars. The text 'NeighborWorks® Insurance Alliance' is overlaid on the top left of this image.



NeighborWorks® America

NeighborWorks® America is the public name adopted in 2005 by Neighborhood Reinvestment Corporation (as of April 11, 2005, now doing business as NeighborWorks® America), a public, nonprofit corporation chartered by Congress in 1978 (P.L.95-557) to revitalize distressed communities throughout the United States. Sparked by the 1978 legislation, NeighborWorks® America created the NeighborWorks® network of community development nonprofits charged with closing the homeownership gap among whites and non-whites; improving financial literacy; empowering families to get the most out of the homebuying process; and, using community development strategies to improve safety and build wealth.

NeighborWorks® America provides financial support, technical assistance and training for communities across the nation, including the NeighborWorks® network – a nationwide network of more than 235 community development organizations working in more than 3,000 urban, suburban and rural communities across America. These organizations engage in revitalization strategies that strengthen communities and transform lives. In the last five years alone, NeighborWorks® organizations have generated more than \$8.5 billion in reinvestment and helped more than 500,000 families of modest means purchase or improve their homes or secure safe, decent rental or mutual housing.

For more information on NeighborWorks® America, visit its website at www.nw.org.



The NeighborWorks® Insurance Alliance

The NeighborWorks® Insurance Alliance was created in 1994 as the National Insurance Task Force. Its purpose is to develop partnerships between the insurance industry and NeighborWorks® organizations to better market the products and services of both, for the benefit of the customers and communities they serve.

Many of America's leading insurance companies, trade associations, regulatory agencies and community development organizations are integral to NeighborWorks® Insurance Alliance (NIA) efforts. The following is a list of its partners today.

Insurance Partners

Allstate Insurance Company ▶ American Family Insurance ▶ American National Property & Casualty Companies ▶ Farmers Insurance Group ▶ Liberty Mutual Group ▶ MetLife Auto & Home ▶ Nationwide Insurance ▶ Safeco Insurance ▶ State Farm® ▶ St. Paul Travelers ▶ USAA

Trade Associations

American Insurance Association ▶ Independent Insurance Agents & Brokers of America ▶ Institute for Business and Home Safety ▶ Insurance Information Institute ▶ National African-American Insurance Association ▶ National Association of Independent Insurers ▶ National Association of Mutual Insurance Companies

Regulatory Agencies

District of Columbia Department of Insurance and Securities Regulation ▶ Georgia Department of Insurance ▶ New York State Insurance Department

Educational Institutions

Roosevelt University

Community Development Organizations

More than 235 NeighborWorks® organizations

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a publication of the
NeighborWorks® Insurance Alliance
and
NeighborWorks® America



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Introduction

Since 1994, when the National Insurance Task Force was first convened in response to concerns about the availability and affordability of homeowners insurance, contributions to individual NeighborWorks® organizations from insurers have almost tripled, validating recognition of the value of the partnership. No longer a task force and now operating as the NeighborWorks® Insurance Alliance, NIA is the perfect example of how the insurance industry and communities can work together to help improve life in neighborhoods all across America.

As the Task Force evolved into the NeighborWorks® Insurance Alliance in 2004, insurance companies came to know and appreciate the work of NeighborWorks® organizations all around the country. Insurers serve on local boards of directors (as well as on NIA's board), conduct educational seminars, volunteer for paint-a-thons and other efforts to enhance neighborhoods, and advocate for NeighborWorks® organizations among other potential private- and public-sector partners.

Now we are asking insurance companies to consider broadening the way they relate to NeighborWorks® organizations. NeighborWorks® organizations are the premier, nonprofit, affordable-housing developers in the nation. Their involvement in the NeighborWorks® network means they have achieved the highest possible standards of operation and management. As such, they are deserving of financial support that will enable them to replicate their efforts and maximize their abilities to improve the lives of people who live in America's low- to moderate-income communities.

Our hope through this report is to demonstrate how insurers benefit from a specific aspect of almost all NeighborWorks® organizations' work: housing rehabilitation. Doing so is a win-win situation for all concerned. We hope this report stimulates discussion and inspires insurance companies to seek out new opportunities to interface with NeighborWorks® organizations – and vice versa.

The NeighborWorks® Insurance Alliance, has created a solid foundation from which this new venture can be launched. We hope within the next year or two to be able to report a significant level of investment on the part of insurance companies in NeighborWorks® organizations' housing-rehab efforts – and thus in communities all across America.



Todd Pittman
National Director, NIA
NeighborWorks America®



Improving Insurability Through Rehab

How Insurers Benefit from the Housing Rehabilitation Efforts of NeighborWorks® Organizations

For the last 10 years, the NeighborWorks® Insurance Alliance (NIA) has worked to educate nonprofit organizations and their clients about ways to protect themselves against the various perils – fire, wind, water, theft and others – that could threaten their homes and livelihoods. NIA has also worked to educate insurers about the untapped market potential of neighborhoods served by local nonprofit organizations comprising the NeighborWorks® network and the needs these neighborhoods have for affordable and accessible insurance products.



Now NIA is asking insurance companies to recognize the direct effect they can have upon the ability of NeighborWorks® organizations to **prevent** the problems that lead to insurance claims, thereby continuing to make underwriting their communities more affordable, available and competitive.

This prevention can be done by directly supporting – financially – the housing-rehabilitation work these organizations do.

This direction is a natural one for the insurance industry to take. Historically, insurers have promoted loss-prevention technologies such as air bags in cars, fire prevention systems, anti-theft devices and other methods of mitigating or suppressing risk. Why would the industry not embrace a strategy that stands to reduce the number of property,

health and liability claims in neighborhoods where such involvement makes good business sense?

“It’s a no brainer for insurance companies,” said Daryll Fletcher, Vice President, Knowledge Development, Product Operation for Allstate and NIA National Co-Chair. “To those of us in the property insurance business, it’s clear we’d like to have fewer losses. In the case of older properties, mitigating risk means making sure the property’s in good shape.”

“Any insurance company that would not be interested in mitigating risk by improving the overall neighborhood and is willing to charge their customers more because of those risks will have more losses. If they [insurance companies] don’t know about the work of NeighborWorks® organizations, then the problem is, how do you get insurance companies tuned in?”

Jamie France, Manager, Property and Casualty Underwriting, State Farm®, agreed. “Our mission,” he said, “is to help people manage the risk of everyday life, recover from the unexpected, and realize their dreams. State Farm is working to build strong, safe, educated communities – because when communities prosper, we all do.”

“The reality is when people take preventative action, they are going to incur fewer losses, which ultimately benefit the entire community. That’s why supporting NeighborWorks® organizations’ rehabilitation efforts is vital to communities and to State Farm®,” he said.

How Does Housing Rehab Mitigate Risk?

The most obvious answer is that housing rehab prevents the negative outcomes of deferred maintenance. A roof can't withstand a storm; outdated wiring causes a fire; broken or missing locks invite theft; a cracked sidewalk or broken steps can cause injury and a liability claim; aging pipes can burst. In all of these instances, and many more, the insurance claim that results is likely to be far more costly than fixing the problem in the first place.

Call it home improvement, home safety, housing rehab – it's all risk mitigation. And it can be a worthwhile part of the insurance industry's business model.

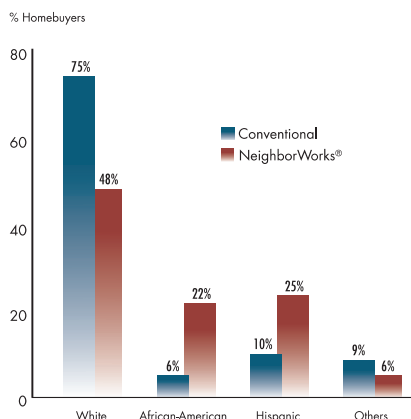
Rehab Is a Substantial Market

The sheer numbers of older homes in low- and moderate-income neighborhoods illustrate why this is an asset-protection methodology worth supporting. Ninety-five percent of owner-occupants with annual household incomes below \$50,000 live in older, single-family homes. That's 34 million homes. In six major U.S. metropolitan markets, 27 percent of the 6.8 million owner-occupied, single-family homes were built before 1950.¹

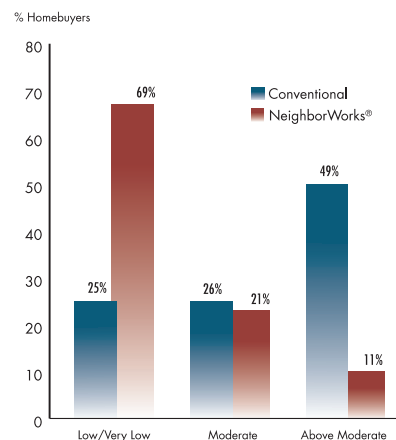
These are homes that need regular upkeep if they are to remain a viable and integral part of the nation's housing stock. The fundamental design of many older buildings contributes to their becoming greater insurance risks. For example, flat roofs with damaged gutters can result in chronic ice-damming in the wintertime, with water eventually forced behind brick which may destroy entire walls. Unfortunately, without help, many owners can't afford to pay for even small repairs. People in lower-income and minority households, in particular, need help sustaining their investment, as well as access to products and services that will enhance their investment and help them to reach long-term financial success.

Another reason to support the rehabilitation of existing housing stock is that its sale represents the opportunity to reach the fastest growing groups of homebuyers in need of insurance products: minorities, families of modest means, new Americans and other underserved families. This list reads like the demographic of residents served by NeighborWorks® organizations.

Ethnicity of Homebuyers:
NeighborWorks® Campaign for Home Ownership
vs. Conventional Lenders



Household Income of Buyers
NeighborWorks® Campaign for Home Ownership
vs. Conventional Lenders



¹ American Housing Survey for the United States: 2001 (available at www.census.gov/hhes/housing/ahs).

Older Homes Needing Rehab Are a Big Share of the Market

Because home-building levels have remained relatively stable for the past two decades, new homes (both conventional and manufactured) account for a smaller and smaller share of the total residential housing stock. For example, when construction activity peaked in the 1970s, as the baby boomers entered the housing market, homes built during that decade represented more than 30 percent of the stock. In the 1990s, that share declined by half, to 16 percent.

Between 1989 and 1999, owners aged 55 and older sold almost nine million homes to younger buyers. More than 40 percent were built before 1950, and another 35 percent were built between 1950 and 1969 (American Housing Surveys). Homes in both these age categories are prime candidates for home improvements.

Recent research by the University of North Carolina, sponsored by NeighborWorks® America, has highlighted the significant challenges in the preservation arena.¹ Almost half of low-income homebuyers in the study have experienced major unexpected costs associated with their home. According to the National Housing Conference, 51 percent of working families with critical housing needs own their homes.²

Yet home improvement loans present a variety of challenges. Available loans and grants often come with burdensome constraints on how funds may be used; properties must be evaluated and specifications written; the homeowner must be creditworthy and have sufficient affordability to repay the loan; and contractors must be found to complete the work to satisfaction. In some markets, the after-rehab value of the property may exceed its market value, leading to appraisal difficulties. In rural areas, travel time and vehicle expense can add substantially to the cost. Nonprofits can help manage this process, just as in pre-purchase homebuyer education, streamlining the process and achieving efficiencies by bundling projects.

With life expectancies rising, the fastest growing segment of the population is 85 and over. Despite infirmities that increase with age, the overwhelming majority of seniors want to and do remain in their homes. Of the five million households that include a senior, two million express a need for structural modifications to their homes to improve safety and comfort. Moreover, only half the households that say they need modifications actually have them installed.³ With the number of households headed by a person 65 or older rising by about 300,000 a year over the next decade, demand for such home modifications will grow.

NeighborWorks® organizations are well positioned to provide services, often in partnership with seniors' organizations, as well as advice and project oversight. Community-based organizations can help manage smaller home repairs and improvements, which contractors often avoid, as well as provide grants and loans to finance the work. Also, counseling from a locally-based trusted organization may prevent a senior from becoming ensnared by an unethical contractor or predatory lender.

Excerpted from "Focusing on Postpurchase Services to Preserve the Dream of Home Ownership" by J. Michael Collins, NeighborWorks® bright ideas, Winter 2003-2004.

¹ Rohe, W.M., Quercia, R.G., Van Zandt, S. and Kosarko, G. "Individual and Neighborhood Impacts of Neighborhood Reinvestment's Homeownership Pilot Program." The Center for Urban and Regional Studies, University of North Carolina at Chapel Hill, April 2003.

² "Paycheck to Paycheck: Working Families and the Cost of Housing in America," National Housing Conference, 2001.

³ Housing America's Seniors, Joint Center for Housing Studies, 2000.



In 2004, 52 percent of homebuyers in the NeighborWorks® Campaign for Home Ownership were non-white, compared to the 25 percent of non-white borrowers of conventional loans. Nearly 70 percent of Campaign buyers had incomes that were low or very low, and another 26 percent fell into the moderate-income range (compared to 25 percent and 21 percent, respectively, of conventional buyers).

NeighborWorks® organizations excel at helping individual families purchase their first homes. However, it is just as critical to sustain homeownership. Doing so is a critical component of the comprehensive neighborhood revitalization strategy that makes the NeighborWorks® network so effective – and that initially prompted the insurance industry’s now long-standing involvement.

“An unrepaired house is like a rotten tooth: It infects everything around it,” said Elizabeth Malone, insurance services program manager for Neighborhood Housing Services of New York City.

Rehabilitation of single-family homes protects families’ investments and also protects families’ health, safety, security and ability to remain in their home. It also affects neighboring homes and families. A fire that sweeps through one home also damages others, if not from fire, then from smoke or water. A dead tree that should have been removed from a yard can easily topple onto a neighbor’s roof. Housing rehab has both immediate direct benefits but, also, numerous long-term and/or indirect benefits.

“An improving neighborhood is likely to result in more improvements,” noted Malone. Rehabbing a house has “a psychological as well as a physical effect.” Because housing rehab is so visible and represents a reversal of decline, it has a ripple effect throughout the neighborhood. A trash heap becomes a garden. Old cars get hauled away. Empty lots are fenced. Block associations and Neighborhood Watch groups are formed.

“The thing I like most about NeighborWorks® organizations is that they understand the consumers’ needs as well as the insurers’ needs,” said Don Davis, Director, Urban and Emerging Markets, St. Paul Travelers. “They help homeowners meet the basic standards of a sound and safe home environment, but also one that insurance companies would find attractive.”

Rehab of vacant and abandoned properties is a powerful tool for neighborhood revitalization. Such properties are more than just eyesores. At their worst, they can be death traps. At the very least, they have an impact on whether neighboring houses are valued enough to be considered worth maintaining. They also destabilize neighborhoods, causing crime to rise and making neighborhoods less safe. NeighborWorks® organizations that are able to acquire and rehabilitate vacant and abandoned properties have a positive effect in numerous ways – but this acquisition and rehabilitation process is expensive for numerous reasons.

How Do We Know Housing Rehab Affects Claims?

The overall goal of NeighborWorks® America’s risk mitigation and natural disaster safety efforts is to improve safety, provide insurance education, and preserve individual and community assets. However, much work still needs to be done to quantify the affect of housing rehabilitation on insurance claims.





As part of this effort, the NIA commissioned an evaluation of the its Loss Prevention Partnership (LPP) program by James Lewis of Roosevelt University in Chicago that compares the exposure and loss experience of major insurance companies in LPP target areas with the cities and states in which they reside.²

The LPP program was a five-city pilot intended to educate homeowners about home safety and to reduce insurance risk to other sites in the network.

From 2000 through 2003, NeighborWorks[®] organizations in the five participating cities – Chicago, Denver, Richmond (VA), St. Louis and Staten Island – endeavored to educate consumers and to reduce risk. Each city focused on a specific peril: Chicago and St. Louis, fire; Staten Island, water damage; Richmond and Denver, home theft and burglary. In three years, the program achieved the following:

- ▶ Educated more than 6,000 individuals in home safety seminars;
- ▶ Conducted more than 1,300 home safety evaluations (home inspections);
- ▶ Made at least 600 loans and grants; and
- ▶ Granted or loaned more than \$2.5 million for home safety.

Lessons learned from the LPP are just a few among many that will be conveyed by collaborators in the NeighborWorks[®] risk mitigation program to NeighborWorks[®] organizations all across the country.

At least one NeighborWorks[®] organization has looked at the impact of its work on loss ratios, with impressive results. NHS of New York City gathered data on a sampling of clients whose insurance policies had been written between 1996 and 2002. Surveyors took great care to retain client confidentiality on all levels and asked participating insurance companies to look at their own clients' performance and report back within the confines of their individual policy guidelines. Not all companies were able to return the requested information necessary to compute a loss ratio, but of a documented client base of 761 policies, 416 were fully reported in the format designed.

The perils reported and the payouts were all documented by hard numbers, distilled from company records rather than from client surveys. Results were consistent across all companies and across neighborhoods.

The results showed that, even taking into account the limits of the data gathering, the NHS customers' loss ratio was estimated to be less than 20 percent. The NHS notes in a summary of its findings that loss ratios in the 40 percent range are common, and "it is not uncommon for companies to pay out in claims and expenses more than they collect in premiums."

Multiply this impact by the more than 235 members of the NeighborWorks[®] network and the potential for reducing losses in lower-income communities begins to be seen. (In 2004, NHS of NYC set new records in the value of dwellings insured and for the number of families educated and counseled on insurance issues. Its network of more than 40 insurance agents wrote nearly 170 policies, insuring structures valued at more than \$51.3 million.)

Kate Reese, chief program officer of Beyond Housing/NHS of St. Louis, said that it has always had strong partnerships with insurance companies, "and they've always told me it's primarily because of the rehab piece. We offer a full continuum of services, put homes back on line that wouldn't be there without us, do a significant amount of home repair –

² Lewis, James. Evaluation of the LPP, 1999-2005. NeighborWorks[®] America. Release date: December 2005.

which means that insurance companies can sell products to buyers whose homes have gone from having many hazards and code problems to being healthy and safe.”

Insurance Support Critical, Yet Lacking

Insurance companies are already involved successfully in supporting housing-rehab work – but too often the support is indirect. Nine of the 10 leading writers of homeowners insurance are represented in the NIA. Because of the support from companies such as Allstate, St. Paul Travelers, State Farm®, Liberty Mutual, Safeco Insurance and Farmers, insurance accessibility, education and research have all improved in NeighborWorks® neighborhoods. During its first 10 years, the National Insurance Task Force (precursor of the NIA) saw a tripling of insurance company contributions to individual NeighborWorks® organizations, a rise in visibility of the NeighborWorks® network in the insurance arena, and the creation of the largest systematic partnership-building approach to address insurance issues in low-income communities.

But actual dollars specifically dedicated to housing rehab has been far less than, say, contributions by the lending industry to the NeighborWorks® network’s homeownership promotion efforts.

This is most unfortunate, because insurance industry dollars can be leveraged very dramatically.

“Funding from our insurance partners is very important to our community development work,” noted Marianne Garvin of the Community Development Corporation of Long Island (CDCLI). “Their funds are leveraged 40 times over. We couldn’t do our rehab work without these dollars, because many of our other funds have to go into bricks and mortar and not labor costs. If we didn’t have this [insurance company] financial support, we wouldn’t be able to utilize the other funds available.”

Among the insurers who support CDCLI is Liberty Mutual; its insurance committee has six insurance company members and is chaired by Larry Gorecki, district sales manager for Liberty Mutual. Gorecki’s company has been involved with CDCLI for eight years and sees its involvement as part of its mission “to help people live safer, more secure lives,” he said. “It benefits us if homes are properly maintained, with all systems upgraded. In the long run, it’s a real advantage.”



Among the sources of financing that CDCLI is able to access while leveraging insurance industry contributions are funds from the state's Weatherization Assistance Program and Affordable Housing Corporation, the New York State Energy and Resources Development Agency (NYSERDA), HOME funds through both the state and the county and local government funds.

Based on CDCLI's success in insurance education and asset protection, the Ford Foundation selected it to participate in Ford's Weatherization, Rehabilitation and Asset Preservation (WRAP) program. CDCLI is one of 15 sites nationwide participating in the program, which is administered by the Energy Programs Consortium. The WRAP program's goal is to weatherize and rehabilitate at least 10 percent of the housing stock in the target neighborhood(s) in three years. For CDCLI, that means conducting comprehensive repairs on 195 homes in the northeast community of the village of Freeport.

NHS of Chicago's insurance partnership has spanned decades and resulted in more than \$30 million invested into the community for home safety. Again, small investments yield big results. The five insurance companies in the Chicago Home Safety Partnership (CHSP) contribute an average of \$35,000 toward a program that's entire cost is about \$300,000-\$350,000 per year.

"With that we're able to lend \$8 million a year for home improvements plus do 270 home safety inspections and educate 1,500 people about insurance," said Christen Wiggins, NHS's Director of Innovation, Evaluation and Public Policy. "I'd call that a really good return on an investment."

"We make home safety a priority for every [mortgage and home improvement] loan we do," Wiggins continued. "A quality standards housing assessment is done by a trained construction specialist on every home where we lend money and residents are helped to understand where safety improvements are necessary. It's a lot more work, but we've made it part of our business plan because of the valuable input from our CHSP partners."

But making the business case for increased financing from insurers specifically for housing rehab is difficult, Wiggins said. She believes housing rehab has an impact on claims. "We rely on the generous contributions of our insurance partners to our safety initiative and our general operating fund to provide this high level of service that improves safety. I know that it has been a trend recently for corporations to give to more specific programs and activities, but our partners largely appreciate the value of our more integrated approach," she said.

"Creating sustainable homeownership experiences is what keeps people safely in their homes, and people in homes need homeowners insurance," Wiggins pointed out.

To make its pitch to new insurance industry supporters, NHS compiles data from every loan it makes and assesses the amount invested in home safety elements, such as replacing new porches and installing new heating and ventilation systems. NHS has 20 such measures that result in a report card that measures results in seven different categories.

Over time, the NIA will compile data about the direct effect of insurance industry financial support on NeighborWorks® organizations and their programs and on the number and severity of insurance claims. But the level of contributions needs to be large enough to be measured. According to George Acee, NHS of Utica, New York, "Insurance companies have been good as far as representing themselves on our NIA; they've been good supporting different forums and workshops – but actual dollars for neighborhood renovation is nonexistent."

The NIA and the insurance industry partners who “get it” will do all they can to convince others. For Daryll Fletcher of Allstate, “The whole issue of revitalization of our neighborhoods, period, is something insurance companies should be involved in. We are the protector and the benefactor. When neighborhoods get improved upon and revitalized, it absolutely affects the amount of our investment – what we have taken in and what we can give back.”

“It’s up to us to invest in these neighborhoods. Home rehabs are a big part of it, but the overall revitalization of the neighborhoods is important because it becomes a perpetual success that benefits everybody,” he said. “If we’re not going to be involved, then what’s our purpose?”

Why NeighborWorks®?

Since the early 1970s – for more than 30 years now – insurance companies have been examining and counteracting real and perceived barriers to insurance affordability and accessibility in lower-income and minority markets across the United States.

Many of these companies quickly discovered that, in addition to programs they execute out of their own offices, one of the best ways to serve these markets was to partner with local, nonprofit, community development corporations (CDCs). In the late 1960s, these organizations were just beginning to be established as mechanisms for attracting investment to long-neglected neighborhoods. The CDCs immediately identified insurance as a critical need, and insurance companies (along with lenders) were among the first investors to make serious commitments to the work of these organizations.

In many ways, this has been a perfect match. Nonprofit organizations and the people they serve want insurance products that provide the same level of protection available to residents of more affluent communities. They want these products at a competitive price. They want comparable service, with access to company representatives who can explain policy provisions. In addition, these consumers and the CDCs that guide them seek personal assistance when there are problems with insurance products, claims or settlements. Insurers want to write policies in an environment in which reasonable losses can be absorbed and the pricing of their products can result in a profit justifiable to their stockholders or policy holders (for mutually owned companies). They see the benefit of better access to previously underserved markets, which results in more customers and greater profits.

Both community groups and insurers come closer to reaching their goals when they consider common needs:

- ▶ Rehabilitating older, deteriorated properties, making them safer and more updated.
- ▶ Offering pre-purchase and post-purchase counseling for new homeowners, which creates better-informed consumers who understand how to mitigate risks and maintain their homes, perhaps better than the average American consumer.





► Serving as a bridge between residents, insurers and other private-sector partners. Past experiences or negative perceptions can be overcome when residents see the active involvement of insurance companies on local organizations' boards and in their programs and activities.

By 2005, there were an estimated 3,000 CDCs in the U.S. purporting in some way to do neighborhood revitalization. What sets those in the NeighborWorks® network apart?

First and foremost, there is the local organization's affiliation with the Congressionally-chartered Neighborhood Reinvestment Corporation, which on April 11, 2005, began doing business as NeighborWorks® America.

The new name, NeighborWorks® America, was designed to make stronger the alignment of the corporation to the national

NeighborWorks® network and all of its components. This alignment is important because NeighborWorks® America's support of NeighborWorks® organizations, in the form of funding, training, technical assistance and access to other resources, significantly differentiates them from other nonprofits. Being admitted into the NeighborWorks® network means that an organization has demonstrated a highly professional level of service and has proven that it is well managed, fiscally sound, productive and innovative.

Of particular interest to insurers is how members of the NeighborWorks® network benefit from a number of national efforts that recently have coalesced under a new banner, those efforts focus on risk mitigation and natural disaster safety.

These collaborative efforts include the NIA, the NeighborWorks® Campaign for Home Ownership, the NeighborWorks® Multifamily Initiative, the NeighborWorks® Community Building and Organizing Initiative, and NeighborWorks® America's research department. The NIA coordinates these efforts.

► **The NeighborWorks® Campaign for Home Ownership** is the largest initiative of its kind to bring families of modest means into the economic mainstream by helping them to achieve home ownership. Through Financial Fitness training and NeighborWorks® HomeOwnership Centers®, the campaign will implement insurance education, home safety education and home safety inspections.

► **The NeighborWorks® Multifamily Initiative** will raise awareness of and provide renters' insurance education at its learning centers. (A recent national survey found that nearly two-thirds of U.S. renters are living without renters' insurance.)

► **The NeighborWorks® Community Organizing and Building Initiative** works to strengthen and develop the leadership skills of individuals in NeighborWorks® communities. The initiative will assist NeighborWorks® organizations in implementing and sustaining community safety and community loss prevention efforts. It also will work with NIA's risk management committee to develop a community safety/loss prevention curriculum and encourage network organization engaged in community organizing to use it.

► **NeighborWorks® America's research department** will work to quantify the benefits of risk mitigation activities, to both communities and insurance partners. Among the information sought will be the number of insurance personnel on network organization boards and committees; households receiving insurance education, home safety counseling, and

home maintenance counseling; coverage for network organization properties; contributions and grants by insurance companies; and other data.

► **The NeighborWorks® Insurance Alliance** is the central coordinating entity for the NeighborWorks® risk mitigation efforts, providing ongoing management and oversight. It will secure financial resources and work with other risk mitigation collaborators to design and maintain curricula, identify and review data, maintain and increase the program's partner base and resources, and explore opportunities for network discounts and product development.

NeighborWorks® organizations, their partners and their clients also benefit from NeighborWorks® America's Full-Cycle Lending® model. Developed in 1993, this is a comprehensive approach to home-ownership promotion that includes pre- and post-purchase counseling, property inspections, innovative mortgage loan products, resident engagement, and other services. According to NeighborWorks® America analyst J. Michael Collins, homebuyers who benefited originally from Full-Cycle Lending® services have mortgage-delinquency rates that are on average two percentage points below those who took out conventional, FHA-insured home loans, according to NeighborWorks® America analyst J. Michael Collins.³

One of the goals for the NeighborWorks® Campaign for Home Ownership between 2003 and 2007 is to assist 50,000 current owners in preserving their homeownership. The goal includes two components:

- helping homeowners to make structural or physical improvements to their homes and
- providing homeowners with financial education, loans and other assistance.

Structural assistance includes home repair, renovation and rehabilitation, as well as programs that will allow the elderly to age in place. Financial assistance includes post-purchase budget counseling, financial literacy, loss-mitigation efforts and foreclosure interventions.

The Growth Potential of Housing Rehab

In an April 2005 study of housing rehabilitation in the NeighborWorks® network, co-authors Jack Jensen, Michael Collins and Armand Magnelli noted that the need for housing rehab – ranging from fix-up or neighborhood paint programs, to single-family rehab, to large-scale commercial or multifamily preservation efforts – is considerable in the target areas serviced by NeighborWorks® organizations. Most NeighborWorks® executive directors interviewed for the study said they could triple, quintuple, or exponentially grow their programs if the resources were available, and they would still not satisfy the need.⁴

In fact, there is a consensus throughout the network that the potential for growth, profit and impact in housing rehab is enormous.



³ Collins, J. Michael. "Focusing on Postpurchase Services to preserve the Dream of Home Ownership," *bright ideas*, Vol. 23, No. 1, pp. 2-7.

⁴ Ibid.

Share of NeighborWorks® Organizations Providing Service

	Rehab	Repair	Rehab or Repair	New Construction
1995	65%	36%	71%	13%
1996	68%	30%	73%	18%
1997	69%	32%	75%	19%
1998	70%	30%	76%	21%
1999	69%	31%	74%	27%
2000	61%	26%	67%	31%
2001	59%	24%	64%	30%
2002	59%	23%	65%	30%
2003	57%	21%	62%	30%
2004	58%	24%	65%	30%

Source: NeighborWorks® America Quarterly Surveys

Average Annual Units Per NeighborWorks® Organization

	Rehab	Repair	New
1995	41	161	32
1996	43	137	30
1997	54	209	34
1998	49	248	44
1999	42	240	35
2000	44	311	38
2001	54	318	32
2002	49	344	37
2003	59	392	39
2004	63	375	35

Source: NeighborWorks® America Quarterly Surveys

NeighborWorks® Network FY 2004

(in millions)

Total Investment	\$ 2,209
Total Repairs	\$ 4.4
Total Rehab	\$ 285.3
Single Family Rehab	\$ 75.8
Multifamily Rehab	\$ 209.5

However, the study also found that federal and local resources to fund housing rehab are increasingly scarce, reflecting a 10-year trend. The traditional funding sources of federal Community Development Block Grant (CDBG) and HOME programs have less money and more competing priorities, a trend that will undoubtedly continue. At the same time, NeighborWorks® organizations report ever-increasing costs in doing housing rehab, and they see no reversal in that trend either.

Most network organizations provide housing rehabilitation services, and one-in-four provide repair services. Overall, about 13 percent of all network investment is used for housing rehab and related activities. Nearly 8,000 units are rehabbed annually as of fiscal year 2004, and over 19,000 units are repaired. Over a quarter of a billion dollars is invested by NeighborWorks® organizations in housing rehabilitation and repair annually.

As a line of business growth, however, housing rehabilitation is flat, in large part because of the lack of funding. The rate of growth of lending, new housing development, housing counseling and homeownership promotion have outstripped the growth in housing rehabilitation and repair.

Still, while the share of NeighborWorks® organizations providing housing rehabilitation and repair services has declined, the number of units produced by each organization still engaged in the activity has increased.

In addition, about 5 percent of NeighborWorks® organizations reported providing paint services, 7 percent weatherization and 4 percent code inspection.

While most housing rehabilitation activity is for single-family units, the value of multifamily unit investment through housing rehabilitation is much larger. In fiscal year 2004 the average housing-rehab project involved a total reported investment of \$32,697 and the average repair \$1,448. There is a large variation around these averages, as some multifamily housing-rehab projects involve multimillion dollar investments. The average investment per rehabbed unit in 2004 was \$25,000 per single-family unit and \$70,000 per multifamily unit.

There is a great deal of diversity regarding the types of services that are considered to be part of the typical NeighborWorks® organization housing rehabilitation program. Few network organizations provide direct labor or materials; most contract with outside con-

tractors. Most also provide project financing, as well as oversee bidding, design and code inspections.

Protecting Assets Through Foreclosure Intervention

“We include insurers in the stakeholder group whose members have a vested interest in preventing foreclosure,” said Marianne McLaughlin, Rehab Lending & Homeowner Services Manager of the Codman Square Neighborhood Development Corporation in Boston. “Foreclosure prevention is an urgent priority in Massachusetts, in our county and in our neighborhood. Foreclosure activity in the first few months of 2005, when compared with 2004, has increased 25 percent statewide, 50 percent in our county and 70 percent in our neighborhood.”

“CDCs want to stabilize communities and individual households. Insurance companies – like any other business – want to retain customers and prevent losses. We care about the same outcome viewed through different lenses.”

Foreclosures are tragedies for individuals and families, and they have harsh consequences for entire neighborhoods and community economies. Just one or two boarded-up houses can send a residential block into a downward spiral, driving down property values while leading to increased crime and hindered economic growth.

Daryll Fletcher of Allstate agrees: “Foreclosures have an effect on our business because it means people can’t afford insurance products, homes become uninsurable – but the real issue is the condition of those foreclosures – what happens over time. It puts all of the homes in the community at risk. For us to be involved in these kinds of activities [rehab and prevention of foreclosures] is certainly to our advantage.”

Many industry experts predict that the rate of foreclosures will rise nationwide over the coming years. An increasing number of homebuyers are purchasing subprime or predatory loan products that have short-term benefits but make it more difficult to make monthly payments and keep the home over the long-term. Another troublesome trend is the overall increase in home purchasing at prices that are outpacing increases in income.

NeighborWorks[®] America is working in local communities to prevent foreclosures before a person buys a home. The key is providing education and counseling both before and after a home is purchased. Informed consumers can leverage better service, lower costs and a more transparent, accountable lending service by the real estate industry. An innovative campaign in Chicago, for example, prevented 650 foreclosures in the past 18 months.

A June 2005 study released by the Woodstock Institute examined the effect of foreclosures on neighboring properties. To measure the impact of nearby foreclosures on property values, the report used a unique database that combined data on foreclosures during 1997 and 1998 with data on neighborhood characteristics and more than 9,600 single-family property transactions in the city of Chicago in 1999.

Even after controlling for more than 40 characteristics of properties and their respective neighborhoods, the authors found that foreclosures of conventional, single-family loans have a significant impact on nearby property values. Their most conservative estimate indicated that each conventional foreclosure within an eighth of a mile (essentially a city block) of a single-family home resulted in a 0.9 percent decline in value.

“Cumulatively, this means that, for the entire city of Chicago, the 3,750 foreclosures in 1997 and 1998 are estimated to have reduced nearby property values by more than \$598 million.



This does not include effects on the values of condominiums, larger multifamily rental properties, and commercial buildings,” the study stated.⁵

Less conservative estimates suggested a 1.136 percent decline in that property’s value and that each foreclosure from one-eighth to one-quarter mile away results in a 0.325 percent decline in value. The city-wide loss in single-family property values was thus just over \$1.39 billion.

In low- and moderate-income census tracts, nearby foreclosures had an even larger effect on single-family property values, showing a decline of 1.44 percent for each foreclosure.

The analysis in this report demonstrated that conventional foreclosures – which are increasingly driven by the subprime lending market – have a statistically significant and financially significant effect on nearby property values. The costs of high-risk lending are borne not just by individual homeowners and lenders, but also by communities – many of them lower-income and working class neighborhoods – which have no direct role in the mortgage lending process. This study shows that irresponsible lending has real implications for communities and cities – implications that can be measured, at least partially, in lost wealth and a decreased property tax base.

In a June 2005 presentation on the Fannie Mae Foundation’s KnowledgePlex® website, analyst J. Michael Collins examined several innovative local and regional efforts that combat foreclosures.⁶

In addition to the ill effects of predatory lending, Collins reported that the most frequently cited issues for troubled borrowers were job loss (32 percent); health crises (25 percent); taxes, utilities or property insurance costs (16 percent); and other causes [including high-cost loans, disability and death in the family] (56 percent).

⁵ Immergluck, D. and Smith, G. “There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values.” Woodstock Institute, June, 2005.

⁶ Collins, J. Michael. “Analyzing Elements of Leading Nonprofit Default Intervention Programs.” June, 2005.

Reducing Risk Through Energy Efficiency

As a way to reduce costs to homeowners while making homes safer and contributing to an improved environment overall, NeighborWorks[®] organizations are increasingly incorporating energy efficient systems into homes that they build and rehab.

The significance of this effort to insurers has been identified in research conducted by the Environmental Energy Technologies division of Ernest Orlando Lawrence Berkeley National Laboratory.⁷ Seventy-eight technologies and techniques that can help reduce insurance losses and manage risks were identified. The most common physical perils addressed were power failures, fire and wind damage, and home or workplace indoor air-quality hazards.

These energy-efficient and renewable-energy technologies and services were found to benefit 13 commercial insurance lines and two personal lines. The commercial lines include comprehensive general liability, commercial property, business and service interruption and workers' compensation. The personal lines include homeowners and life/health.

Reducing Interruptions. Several technologies that can help reduce losses in the residential home market include the following:

- ▶ Explosion-prevention technologies can eliminate the need to coat sensitive surfaces, reducing manufacturing costs. These technologies can prevent property damage and avoid business interruptions.
- ▶ Energy-efficient ultraviolet water purification can produce emergency potable water during disaster situations.

Energy-efficient technologies operate more effectively under minimum power conditions, reducing the negative impact of business and service interruptions. For example, light-colored roofs reduce air-conditioning requirements during peak power periods, lessening the risk of power failures. Similarly, cool storage systems shift the cooling load of a building to off-peak periods during the day. If a building's chiller or refrigeration system fails, the storage system could provide more than 12 hours of air conditioning without chiller operation, providing time for repairs or alternative cooling arrangements to be completed, thus avoiding losses.

Other energy-efficient technologies that can reduce the potential for loss include wind-resistant building envelopes, durable roof coating materials and efficient motors.

Renewable energy technologies can provide emergency power. For example, fuel cells can convert the chemical energy of nonpetroleum fuels to electricity with little or no pollution and with greater efficiency than heat engines and can provide this power continuously and reliably. Solar heating and cooling technologies also reduce a building's reliance on the power grid, reducing the impact of business interruptions during power outages. Grid-independent solar electric cells are already widely used to support traffic lighting, communications and other critical services during natural disasters.

Other power providers include flywheel storage, fuel cells, advanced batteries, parabolic troughs for solar electric power, and wind, geothermal, and biomass.

⁷ Vine, E., Mills, E., and Chen, AA. "Tapping Into Energy," *Best's Review, Property and Casualty*, May, 1999.

Environmental Liability. Several energy-efficiency technologies and services help reduce environmental liability risks. Replacing oil-filled transformers with superconducting transformers can reduce liability concerns with oil handling and leakage. Replacing chlorofluorocarbons with advanced thermal insulation, such as evacuated panel super-insulations and non-HCFC-blown plastic foam insulation, also can reduce potential liability claims.

Insurers Involved. Insurers have demonstrated the largely untapped value of energy efficiency and renewable energy to the insurance and risk-management communities through several initiatives:

- ▶ USAA Group, San Antonio, published an extensive guide to energy conservation for homeowners, providing basic information on energy-saving measures, a simple home energy audit procedure, and a tool for computing cost-effectiveness.
- ▶ Arkwright Mutual Insurance Group, Waltham, Mass., has promoted the risk-prevention benefits of compact fluorescent torchiere light fixtures.
- ▶ The National Association of Independent Insurers and the National Renewable Energy Laboratory have recently collaborated to evaluate the potential for solar photovoltaic cells as a risk-management tool during natural disaster recovery situations.

An early example of insurer partnerships in government energy research and development is a Cooperative Research and Development Agreement between various elements of the U.S. insurance and roofing industries and the U.S. Department of Energy's Oak Ridge National Laboratory. The private partner is the Roofing Industry Committee on Wind Issues, which includes all major roofing trade associations in North America and various insurance partners, such as the Institute for Business and Home Safety, State Farm[®] and Chubb. The aim of this cost-shared project is to analyze mechanisms of roof failure during severe windstorms and to identify specific ways in which energy-efficiency detailing can also enhance roof structural integrity in the face of such storms.

Energy Efficiency Means More Money for Repairs. Energy efficient homes are safer homes that are less expensive to own, which means homeowners have more disposable income to make needed home repairs as soon as they present themselves.

New York State is on the cutting edge of efforts to bring energy efficiency to the homes of lower-income families through the New York State Energy Research and Development Authority (NYSERDA). In 2001, NYSEDA began its Assisted Home Performance with the ENERGY STAR[®] program, the Weatherization Network Initiative, and the Assisted Multifamily Program (AMP). Other programs in the state that assist low-income residents with their energy costs include the Home Energy Assistance Program (HEAP), and the Weatherization (WAP) Assistance Program.

NYSERDA's programs are utilized by several NeighborWorks[®] organizations, whose staff have been trained and certified to participate in the program, according to Rick Gerardi Director, Residential Energy Affordability Programs. Insurance companies are also involved. "We're trying to get our insurance industry partners to make financing [for energy efficiency upgrades] available to policyholders through their premium pools," Gerardi said. "They're very interested in this as they see it as a perfect connection to do good on the global warming side while reducing their liability risks in the homes."

"NYSERDA's Energy \$martSM Loan Program was invented and piloted by NYSEDA and has spread to spread to 10 other states," Gerardi said. Three federal agencies – the Environmental Protection Agency, the Department of Energy and HUD – recently began collaborating to do a national rollout of the program. Among the NeighborWorks[®] organ-

izations that receive support from NYSERDA to operate an Energy \$martSM loan program is Ithaca Neighborhood Housing Services (INHS), the first community development organization to be NYSERDA certified.

“I think it’s terrific,” said INHS Executive Director Paul Mazzarella. “Through EnergySmart we make loans, and NYSERDA subsidizes the interest rate. This enables us to make loans at 4 percent to our clients. What I find exciting about it is it’s been the case many times that the savings people achieve on their utility bills more than pay for their loan payment. That really makes it a win-win program for the homeowner, plus you’re helping the environment.”

“As part of the program, you agree to have a contractor certified by Building Performance Institute look at the whole house and come up with a package of improvements,” he said. “You have to agree to upgrade enough to reach a certain standard. Typically, people upgrade insulation, replace their furnace and hot water heater and do an extensive air-sealing system. Some get replacement windows and energy efficient appliances. The rehab is usually in the range of \$9,000-\$12,000.” Mazzarella said that INHS has made 70-75 Energy\$tarSM loans over the last two years.

For 25 years INHS has been acquiring extremely dilapidated houses, completely renovating them and selling them to low-income, first-time homebuyers. In 2004 alone, INHS oversaw \$1.25 million in construction projects, including three house recycling projects and two new infill houses. INHS also did inspections for 35 loans, two dozen of which included funding from NYSERDA. It completed 40 lead-based paint clearances, up from 30 the previous year, as well as 220 mini-repair jobs.



INHS has been cautiously but steadily improving the “green” aspects of its house recycling program. INHS uses high-tech, duct-sealing techniques, pre-insulated and weather-stripped attic doors, and permeable site work whenever it’s cost-efficient. It is interested in low-cost, tried-and-true methods to reduce energy waste and minimize environmental impact. For example, INHS recently moved away from using vinyl siding, which has a high environmental cost to produce, to a cement-based clapboard or shingles.

Making the Move Toward “Green.” Numerous NeighborWorks[®] organizations are making the move toward green building. As one executive director pointed out, “If I fix up an inner-city building, and provide a home downtown for three families, I’ve done more for the environment than the greenest house that’s ever been built if it’s located a half-hour drive from the city.”

According to Jack Jensen, development and construction management consultant, this move toward green will be increasingly important. In a recent study undertaken for NeighborWorks[®] America, Jensen and his colleagues noted that energy and maintenance savings increase net operating income and reduce the debt-to-value ratio.⁸ Reduced costs turn into cash the owner can use to make additional improvements.

Jensen also noted that using green measures, such as low VOC (volatile organic compounds) paints, adhesives and sealants, improves indoor air quality and reduces risks and liability. He noted that, under the American with Disabilities Act, a landlord must often renovate an apartment if a resident has made a reasonable accommodation request for

⁸ Jensen, J., Collins, J. M. and Magnelli, A. A report for the NeighborWorks[®] Campaign for Home Ownership, 2005.

asthma or other respiratory problems. The use of low-VOC paints, alternatives to formaldehyde-based glues, and other indoor air-quality measures reduces the risk of lawsuits or disability claims from workers and customers alike.

Additional Concerns Shared by NeighborWorks® Organizations and Insurers

Additional issues NeighborWorks® organizations contend with that are of concern to insurers are the following:

► **Toxic environmental hazards.** Rehab specialists and inspectors need to be able to identify easily and to certify the presence of lead-based paint, radon gas, asbestos, and, most recently, toxic mold.

► **Accessibility.** As the population ages, studies show that most people will want to remain in their homes. This often requires a flexible or gradual approach to eliminating barriers in the home, as their health deteriorates and their need for more equipment increases. A visually-impaired client needs a different fire alarm system than a hearing-impaired client. People in wheelchairs need to have a clear space beneath the sink, and the pipes must be insulated to protect against scalding. Countertops, cabinets, light switches and emergency shut-offs must often be re-located to be within reach. Some people require special paddles on faucets or light fixtures.

► **Lead-safe environments.** No nonprofit housing rehabilitator was unaffected by the enactment of the Title X regulation in 1992, requiring that projects utilizing any federal funds comply with strict guidelines for testing, abating and certifying lead-safe homes. The implementation of this regulation clearly unduly burdened nonprofits, since private-sector landlords and developers are not covered under the same regulations. In fact, some respondents to a housing survey cited the Title X regulation as the reason they had either abandoned, or would not consider starting, a housing rehabilitation program.

► **Other common hazards.** These include asbestos, toxic mold and lead from sources other than paint, including lead-based solder in water pipes, airborne dust from streets or near-by factories, and old paint chips mixed in soil. More recently, the Surgeon General and the EPA jointly determined that pressure-treated lumber (a common component of millions of decks and playgrounds) has an unsafe arsenic content, and the Clinton administration enacted reforms requiring that the arsenic content be drastically reduced. As this policy has been implemented, it has also resulted in the requirement for new hardware, since the approved chemical mix reacts badly with the galvanized nails, screws and joist hangers used to fasten the lumber.

► **Mold.** Concern about the consequences of mold contamination has become one of today's top subjects. From the insurance perspective, damage from mold, like rust, rot and mildew, is specifically excluded in standard homeowners and commercial property policies. Mold contamination is covered under these policies only if it is the result of a covered peril. For example, the costs of cleaning up mold caused by water from a burst pipe are covered under the policy because water damage from a burst pipe is a covered peril.

But mold caused by water from excessive humidity, leaks, condensation or flooding is a maintenance issue for the property owner, like termite or mildew prevention, and is not covered by the policy. Most people routinely clean up mold before it grows large enough to become a hazard. Caught early, mold usually can be removed by a thorough cleaning with bleach and water.

While mold has been around for millennia, the number of mold claims submitted to insurers increased significantly. But if insurers are now going to be asked to pay claims for something that is not covered in the policy, the price of insurance will inevitably rise.

Many insurers are now inserting clarifying language in their homeowners and commercial property policies. Some companies may decide to cover all mold claims and price the policy accordingly. Others may exclude mold, but offer an attachment to the policy, called an endorsement, that allows the addition of coverage. Still other companies may provide a tighter definition of what is and what is not covered, while some may prefer to create an absolute exclusion. Most major insurers have announced some form of restriction on writing water damage policies.

As to mold in general, there are more than 100,000 species of mold of which at least 1,000 are common in the United States. According to the Centers for Disease Control and Prevention (CDC), there is always a little mold everywhere – in the air and on many surfaces. The CDC suggests people should take routine measures to prevent mold growth in the home and in commercial structures, usually by stopping the accumulation of moisture.⁹

Additional toxins are now getting increased scrutiny from health officials – mercury, volatile organic compounds (VOCs), bio-hazards such as viruses, rickettsia and protozoans, and household chemicals, solvents and poisons. As medical technology advances, more are sure to surface. The key to staying ahead of the problem is continuing education for housing rehabilitation coordinators. They must be willing and able to learn new regulations constantly and to learn how to head off risks, litigation and undue costs.

Conclusion

Insurance companies have a vested interest in communities and homes that are safe and secure. Through their successful but underutilized housing rehabilitation expertise, NeighborWorks[®] organizations seek to improve the quality of older, unsafe and/or vacant and abandoned properties in the communities they serve. Having a greater financial commitment on the part of insurance companies with funds going directly to NeighborWorks[®] organizations, rehab efforts will enable these organizations to access numerous other sources of funding, leveraging this investment many times over. It is a win-win situation for all, offering protection and benefits to some of America's neediest communities.

As Don Davis of St. Paul Travelers put it, "As insurers, we're all looking for opportunities to grow in various markets and develop new customers. What better way to do that than to help improve housing so that insurance is more available and more affordable – that keeps customers out of a situation where they have to be insured by a FAIR plan? We'd much rather have them be customers of ours."



⁹ Insurance Information Institute, April, 2005.
<http://www.iii.org/media/hottopics/insurance/mold2/>.

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Increasing Insurability Through Rehab: How Insurers Benefit from the Housing Rehabilitation Efforts of NeighborWorks® Organizations

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August 2005