June 7, 2024

Clinton Jones
General Counsel
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20219
Via FHFA Open for Comment or Input Page

Re: Response to 2024 Equitable Housing Finance Plans RFI

Dear Mr. Jones:

It is a pleasure to submit comments on behalf of Ceres and the Ceres Accelerator for Sustainable Capital Markets. Ceres is a nonprofit advocacy organization with over 30 years of experience working to accelerate the transition to a cleaner, more just, and sustainable world. Our Investor Network currently includes over 220 institutional investors that collectively manage over $44 trillion in assets. Ceres is a founding partner of the Net Zero Asset Managers Initiative and the Paris Aligned Investor Initiative, which supports investors in aligning their investments and portfolios with the goal of a net zero emissions economy by 2050 or sooner. Our Company Network includes 50 major corporations representing industries and sectors across the economy with whom we work on an in-depth basis on climate strategy and disclosure, among other issues. Our Policy Network includes some of the most well-known brands in the U.S. with whom we work on a range of state and federal policy issues.

The Accelerator aims to transform the practices and policies that govern capital markets by engaging federal and state regulators, financial institutions, investors, and corporate boards to act on climate change as a systemic financial risk. The comments provided herein represent only the opinions of Ceres, and do not necessarily infer endorsement by each member of our Investor, Company, or Policy networks.

I. INTRODUCTION

Climate-related financial risk – which represents the potential financial losses associated with physical and transition risks resulting from climate events – pose significant financial risks to the nation's housing and mortgage markets. Both physical and transition risk can result in significant financial losses for the Enterprises and the communities they serve, jeopardizing affordable housing goals. In 2023 alone, 2.5 million people lost their homes temporarily or permanently due to climate events such as fires, floods, and droughts. Experts estimate that nearly half of all U.S. homes will face severe or extreme damage from environmental and climate risk in 2024, and that

7.5 million people will leave areas with current and emerging high exposure to climate risk in the next 30 years.

Climate risk also exacerbates existing financial and environmental inequities that underserved communities face. Due to decades of systemic discrimination, redlining, and underinvestment, low- and moderate-income (LMI) communities and communities of color[1] disproportionately bear the economic burdens of climate impacts on housing.[2] These communities are often situated in areas more susceptible to natural disasters which further impacts the availability of mortgages and insurance, have fewer resources to invest in climate-resilient infrastructure or to recover from climate-induced damages, and are excluded from future transition-related solutions and opportunities such as energy and water efficiency upgrades. These events further damage the affordable housing supply – which is at increased risk from climate events such as sea level rise, storms, and flooding[3] – leading to slower repairs, a widening racial wealth gap, and even the inability to rebuild new or build new homes where funding is scarce and rehabilitation and resiliency costs are high.[4]

[1] *See* REPORT ON CLIMATE-RELATED FINANCIAL RISK, FIN. STABILITY OVERSIGHT CNCL. (Oct. 2021), https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf#page=24; *see also* Isabelle Anguelovski et al., WHY GREEN "CLIMATE GENTRIFICATION" THREATENS POOR AND VULNERABLE POPULATIONS, PNAS (2019), https://www.pnas.org/doi/10.1073/pnas.1920490117.

[2] *See, e.g.*, Laura A. Bakkensen & Lala Ma, SORTING OVER FLOOD RISK AND IMPLICATIONS FOR POLICY REFORM, J. OF ENVT'L ECON. & MGMT. (July 2020), https://www.frbsf.org/wp-content/uploads/sites/4/Bakkensen_Ma_2020.pdf; Patrick Sisson, *In Many Cities, Climate Change Will Flood Affordable Housing*, BLOOMBERG (Dec. 1, 2020), https://www.bloomberg.com/news/articles/2020-12-01/how-climate-change-is-targeting-affordable-housing; Daniel Cusick, *Past Racist "Redlining" Practices Increased Climate Burden on Minority Neighborhoods*, SCI. AM. (Jan. 21, 2020), https://www.scientificamerican.com/article/past-racist-redlining-practices-increased-climate-burden-on-minority-neighborhoods/; Brad Plumer and Nadja Popovich, *How Decades of Racist Housing Policy Left Neighborhoods Sweltering*, NY TIMES (Aug. 24, 2020), https://www.nytimes.com/interactive/2020/08/24/climate/racism-redlining-cities-global-warming.html; Sarah Kennedy, *The link between racist housing policies of the past and the climate risks of today*, YALE CLIMATE CONNECTION (Mar. 18, 2021), https://yaleclimateconnections.org/2021/03/the-link-between-racist-housing-policies-of-the-past-and-the-climate-risks-of-today/.

[3] *See, e.g.*, Maya K Buchanan et al., SEA LEVEL RISE AND COASTAL FLOODING THREATEN AFFORDABLE HOUSING, ENVT'L RES. LETT. (2020), https://iopscience.iop.org/article/10.1088/1748-9326/abb266/pdf; Guillermo Ortiz et al., A PERFECT STORM: EXTREME WEATHER AS AN AFFORDABLE HOUSING CRISIS MULTIPLIER, CTR. FOR AM. PROGRESS (2019), https://www.americanprogress.org/article/a-perfect-storm-2/.

[4] *See, e.g.*, UNDERSTANDING CLIMATE RISK: WHAT WE LEARNED ABOUT THE IMPACT OF CLIMATE RISK ON AFFORDABLE HOUSING DEVELOPMENT, FED. RES. BANK OF SAN FRAN. (Mar. 2022), https://www.frbsf.org/our-district/about/sf-fed-blog/understanding-climate-risk-impact-on-affordable-housing-development/; Daniel McCue, *Headlines from the 2019 State of the Nation's Housing Report*, JOINT CTR. FOR HOUSING STUD. OF HARVARD U. (Aug. 7, 2019), https://www.jchs.harvard.edu/blog/headlines-from-the-2019-state-of-the-nations-housing-report.

II. RESPONSE TO QUESTIONS

A. Revisions to 2022-2024 EHFPs

1. *Do the plan revisions effectively prioritize the necessary changes to increase accessible, affordable, and sustainable housing opportunities?*

Fannie Mae's climate analytics pilot assessment and Freddie Mac's climate resiliency property improvements incentives are important first steps towards addressing the inequitable impacts of climate risk on underserved communities. Both the 2023 and 2024 revisions for both targets would have benefited from additional information and explanations for changes made.

For example, Freddie Mac decreased the goal for units of rehabilitated properties from 12,000 to 10,000 for 2023, but did not describe why either in its 2023 update, or its 2022 or 2023 performance reports. Freddie Mac also does not describe why the goal of publishing a climate resiliency term sheet included in its original EHFP was removed in subsequent years, and climate resiliency does not appear to be included in the other rehabilitation terms sheets published in subsequent years. Additionally, Freddie Mac does not describe how it evaluated its financing tools to better meet energy and water efficiency needs, or what the plan it drafted to support best practices towards efficiency involves. Similarly, Fannie Mae does not describe in either year's update and/or performance review why it did not add an additional two to four communities to its pilots as indicated in its original EHFP.

2. *What market conditions should be considered when assessing the plan modifications?*

The Enterprises should consider actions other federal regulators are taking in managing climate risk – such as the banking regulators' Principles for Climate-Related Financial Risk Management, the new Community Reinvestment Act rules that include natural disaster and weather resiliency activities, and the SEC's climate-related disclosures for investors rule – as well as the state of the insurance market when assessing EHFP modifications.

3. *Do the plans provide adequate information on public engagement, including consultations with key stakeholders, solicitation of a diverse range of perspectives, and evidence that input was used to develop changes?*

Fannie Mae's descriptions of its climate analytics pilot assessment in both year's update and/or performance review should have included more detailed information on how it engaged with the Baltimore and Memphis governments, how it conducted direct stakeholder engagement with residents, what lessons were learned, and connected those lessons to EDFP revisions and future strategies. Likewise, Freddie Mac's descriptions of its climate resiliency property improvements incentives in both year's update and/or performance review should have included more detailed information on how it was identifying climate resiliency standards, and how it will use those standards and subsequent terms sheets to encourage owners to make resiliency improvements.

4. *What actions, products, or use cases should be prioritized for the Enterprises to support first-generation homebuyers?*

The Enterprises should ensure first-generation homebuyers have sustainable, affordable access to energy efficient and climate-resilient homes, both in pre-construction and through property improvements/rehabilitation. However, the Enterprises should put in guard rails to ensure these resiliency efforts do not result in adverse effects on, disproportionate consequences for, or the forced or involuntary relocation of underserved communities. Negative impacts could include conditions that result in remaining in place being infeasible or undesirable for underserved communities through increased property values or future downstream impacts.

The Enterprises should also expand financial services to improve access to affordable insurance and/or recovery from natural disasters. For example, Fannie Mae currently offers disaster recovery counseling to help eligible homeowners and renters navigate the financial and recovery impacts of disasters. Freddie Mac has programs to help borrowers who are unable to pay their mortgage due to a natural disaster. The Enterprises should incorporate these programs into their EHFPs and automatically offer them to first-generation homebuyers.

B. 2025-2027 EHFP Development

1. *What criteria should the Enterprises use to identify underserved communities for inclusion in the next Equitable Housing Finance Plans?*

As it relates to climate vulnerable communities, the Enterprises should understand the risk of a hazard, as well as a community's exposure and vulnerability to that hazard. Several data tools and methodologies for identifying climate vulnerable communities already exist, including: EPA's Environmental Justice Screening and Mapping Tool; CEQ's Climate and Economic Justice Screening Tool; CDC's Social Vulnerable Index; and several databases and models on social vulnerability, financial risk and geographic hazards from FEMA, NASA, and First Street.

2. *What new trends or emerging risks impact the ability of underserved communities to access housing opportunities?*

As described above as well as by the FHFA and Enterprises themselves, the impacts of climate events present emerging and increasing risks for underserved communities accessing and maintaining housing. Underserved communities already face higher energy burdens and greater barriers to recovery after natural disasters.

The increasing frequency and intensity of climate events, along with insurance carriers continuing to increase premiums in and/or withdrawal from more areas, will only exacerbate these issues for underserved communities. Without adequate insurance, homeowners and renters struggle to rebuild, increasing foreclosures and delinquencies. The Enterprises should incorporate financial products and services into their EHFPs to support inclusive insurance.[5] Relatedly, the EHFPs could include and expand flexibilities to standard limited cash-out refinance policies currently offered by Fannie Mae for borrowers who have been impacted by a natural disaster.

3. *How can performance reporting be improved to provide more meaningful information about the impact of the Equitable Housing Finance Plans?*

The Enterprises should provide more substantive information in their performance reports that describes their successes, challenges, and revision reasoning for each of their targets and goals. This will make it easier to evaluate and understand the effectiveness of each target or goal in addressing barriers to equitable housing finance.

4. *How can the Enterprises improve their public engagement and outreach efforts, including to ensure that the Equitable Housing Finance Plans are accessible to persons with disabilities and those with limited English proficiency?*

For climate resiliency and energy efficiency targets and goals, the Enterprises should include regular, direct, and ongoing outreach to and engagement with the communities they serve as well as local governments. Products and services should be tailored with homeowners and renters in mind and reflective of needs and access not currently being met by the market. Because many of the most climate-vulnerable communities are often immigrant communities, the Enterprises should ensure both written and verbal communications are available in multiple languages for individuals with limited English proficiency, including by partnering with local housing and tenants' rights organizations.

Transparency is also important to ensure that consumers are kept rightfully informed on policies, procedures, changes, and details that impact and influence financial decision-making and agency. This will contribute to increasing trust in a system that has historically and systematically excluded financially vulnerable communities. Banks have historically excluded communities of color and LMI communities, namely through redlining practices and lack of transparency regarding fees. Homeowners and renters want to make informed decisions about their finances, including understanding how climate risks may affect their homes and mortgages. Transparency and information that is easy to understand is vital for informed choices and the success of the EHFP program.

[5] CERES, INCLUSIVE INSURANCE FOR CLIMATE-RELATED DISASTERS: A ROADMAP FOR THE UNITED STATES (2023), https://assets.ceres.org/sites/default/files/reports/2023-01/Inclusive%20Insurance%20Brief.pdf (offering a framework for expanding the financial protection of insurance against climate disasters to those whose needs are not currently met, and recommendations for how insuring climate-related disasters can be more inclusive in the U.S.).

III. CONCLUSION

We thank the FHFA for the opportunity to comment on the Enterprises' revisions to their 2022-2024 EHFP and 2025-2027 EHFP development. We believe the continued inclusion of climate risk data, resiliency improvements, and energy efficiency targets are imperative to ensuring underserved and disadvantaged communities have sustainable access to safe and affordable housing. We would be pleased to discuss any questions you may have on our feedback.

Sincerely,

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