

July 15, 2024

Joshua Stallings, Deputy Director  
Division of Bank Regulation  
Federal Housing Finance Agency  
400 7th Street, SW  
Washington, D.C. 20219  
Via FHFA [Open for Comment or Input Page](#)

**Re:** Response to [RFI on FHLBank Core Mission Activities and Mission Achievement](#)

Dear Deputy Director Stallings:

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. Climate risk can result in significant financial losses for the FHLBanks 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, [vulnerable communities](#) – [including](#) low- and moderate-income (LMI) communities and communities of color – [disproportionately](#) bear the economic burdens of climate impacts on housing.<sup>1</sup> 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<sup>2</sup> – 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.<sup>3</sup>

Ceres previously [responded](#) to the FHFA’s [FHLBank System at 100: Climate Resiliency](#) discussion questions, and the Accelerator’s Managing Director participated in the accompanying roundtable. In its [Focusing on the Future Report](#) and [Annual Performance Plan](#) for FY24, the agency noted that it “plans to issue guidance for the FHLBanks to begin incorporating climate resiliency efforts into their core businesses, as well as in their AHP and voluntary and pilot programs,” and “will develop and publish FHLBank guidance on climate risk.” We urge the FHFA to incorporate climate resiliency and risk management into FHLBank core mission activities to

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<sup>1</sup> See, e.g., 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/>.

<sup>2</sup> See, e.g., Maya K Buchanan et al., *SEA LEVEL RISE AND COASTAL FLOODING THREATEN AFFORDABLE HOUSING*, ENV’T 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/>; 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>.

<sup>3</sup> 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>.

support their continued safety and soundness and ensure the System is able to meet ongoing housing and community development needs.

## II. RESPONSE TO QUESTIONS

### A. Mission Statement for the FHLBank System

- 1. Are there components in addition to providing liquidity and supporting housing and community development that should be included in the mission statement?*

Whether listed as a core mission activity (12 CFR § 1265.3) or included in the definition section (12 CFR § 1265.1), the mission statement should incorporate disaster preparedness and weather- and climate-resiliency as part of supporting sustainable and resilient residential housing and community development. Financing plays a critical role in helping vulnerable and low income communities prepare for, adapt to, and withstand natural disasters and weather- and climate-related risks or disasters.

However, building natural disasters and weather- and climate-related risks or disasters requires sufficient liquid resources. Pre-disaster evaluation, planning, and investment can help mitigate both future physical impacts of climate events (i.e. reducing flooding) and associated financial burdens (i.e. lower energy and rehabilitation costs). Both of these benefits support the FHLBank System’s mission “to provide ... financial products and services ... that assist and enhance ... financing of housing ... [and c]ommunity lending,” and should be clearly stated as objectives in the CMA regulation. Inclusion of these activities will also support the FHLBanks’ AHP and CIP.

### B. Measurement of Mission Achievement

- 1. Are there characteristics other than those listed that FHFA should consider in developing measures of mission achievement?*

The four characteristics listed in the RFI could be expanded to include:

- Measures should be objective, ~~and~~ clearly defined, **and quantifiable when possible** rather than subjective assessments
  - Quantification will help facilitate objective and comparable measurement
- Data required to produce the measures should be readily obtainable **and regularly updated**
  - Timely data will help provide current insights into performance and impact
- Measures used should be reasonably comparable over time and across FHLBanks **and where possible should be consistent with industry standards or best practices**
  - Allows for benchmarking against other financial and housing institutions

- For transparency and accountability, the aggregated data, methodology, and measures themselves should be shared publicly in a manner accessible and understandable for all stakeholders
  - The public may not have the necessary expertise to effectively utilize the data and metrics in more technical formats

Additionally, metrics should align with the broader strategic goals and objectives of the FHLBanks to ensure coherence between day-to-day operations – as well as the needs and expectations of those served by the FHLBanks – and the long-term mission supporting housing and community development. Measures should also provide insights that can drive actionable improvements, highlighting specific areas for improvement to help FHLBanks refine programs and strategies to better achieve their mission.

2. *Are there items that should be added to or removed from the list of core mission activities?*

See response to Question A.1 (Mission Question Two).

3. *In developing multiple measurements, what additional aspects of mission achievement should FHFA assess?*

*Affordable housing support* – percentage of advances and grants specifically allocated to affordable housing projects, including for natural disaster and climate resiliency projects

*Community development impact* – amount of funding directed to community development projects, including natural disaster and climate resiliency projects

*Support for LMI households* – proportion of funds or projects benefiting households at or below 80% of the area median income, including those communities most vulnerable to natural disasters and climate events<sup>4</sup>

*Rural and unserved areas* – percentage of funding or projects targeting rural and underserved urban areas, including for natural disaster and climate resiliency projects

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<sup>4</sup> Several methodologies also exist for targeting communities that are most vulnerable to climate change. The EPA, White House Council on Environmental Quality (CEQ), and NOAA each have their own interactive environmental justice tool: the Environmental Justice Screening and Mapping Tool (EJScreen), Climate and Economic Justice Screening Tool (beta version), and Climate and Economic Justice Screening Tool (CEJST), respectively. Additionally, the CDC maintains a Social Vulnerability Index that is used to assess a community’s capacity to prepare for, respond to, and recover from human and natural disasters, and several databases on social vulnerability, financial risk, and geographic hazards exist such as FEMA’s flood maps and National Risk Index (NRI) datasets, NASA’s Disasters Data Pathfinder, and First Street Foundation data and models.

*Member institution engagement and impact* – number and percentage of member institutions actively participating in each FHLBank program, the volume of advances or grants utilized by these institutions, the purpose of those advances or grants, and their impact on the ground

*Innovation and adaptability* – number of new or innovative programs and initiatives launched to address emerging housing and community development needs and circumstances, including for climate risk and energy burden

These measurements should be reported annually or semiannually to allow progress tracking.

### **C. Member Incentive Program**

1. *What factors should FHFA and the FHLBanks consider in determining each member’s commitment to housing finance and community development under a member incentive program?*

*Volume and quality of affordable housing loans* – number and dollar amount of loans issued; percentage of the institution’s overall loan portfolio dedicated to affordable housing; performance and sustainability of these loans

*Community development investments* – investment in community development projects; partnerships with local governments, nonprofits, and community organizations to support development initiatives; impact of these investments on local communities, measured through economic indicators such as job creation and business growth

*Support for LMI and BIPOC households* – number and percentage of loans or grants provided; programs targeting first-time homebuyers, including down payment assistance and homebuyer education programs; outcomes of these programs, such as increased homeownership rates among targeted demographics or counseling and workout opportunities in cases of financial distress

*Innovation and program development* – development and implementation of innovative housing finance and community development programs; creation of new financial products or services that address emerging community needs, including adoption of sustainable, resilient, and green building practices in housing projects

*Transparency and reporting* – regular and transparent reporting of housing finance and community development activities; disclosure of outcomes and impact assessments for funded projects; willingness to share best practices and lessons learned with the broader FHLBank community

*Community and stakeholder feedback* – feedback from community members and stakeholders on the institution’s impact and performance; satisfaction surveys and qualitative assessments from beneficiaries of housing and community development programs; reputation and standing within the community as a supporter of housing and community development

2. *What provisions should be required for each FHLBank's program to ensure it does not adversely affect the FHLBank's safety and soundness?*

All banks, regardless of size, may have material [exposures to climate-related financial risks](#). Home [resiliency](#) and [energy standards](#) reduce burdens on homeowners and renters, and will therefore likely [reduce risks](#) to the FHLBanks and their members. An FHLBank member incentive program should therefore require<sup>5</sup> members to:

- Conduct risk assessments of natural disaster and climate-related risks that could impact the bank and its customers,<sup>6</sup> incorporate climate risk into credit evaluations, and implement risk mitigation strategies for identified risks
- Support investments in infrastructure that are designed to withstand extreme weather events and climate impacts, including through current relief programs that support reconstruction and recovery (e.g. [FHLBNY](#), [FHLB Cincinnati](#), [FHLBank Indianapolis](#), [FHLBank Atlanta](#))
- Develop internal emergency preparedness and response plans for natural disasters and extreme weather events to maintain critical functions during and after disasters
- Provide access to liquidity and credit for borrowers affected by disasters, including through CICA programs, allowing them to meet their financial obligations and rebuild their businesses and communities
- Provide loan deferral or repayment assistance programs, waived late fees, mortgage forbearance, and suspension of negative credit reporting to help recovery after natural disasters and extreme weather events to help decrease the risk of default
- Provide grants and low-interest loans to communities affected by natural disasters and extreme weather events through the AHP to help finance resiliency upgrades such as weatherproofing, flood mitigation, and energy efficiency
- Provide grants and low-interest loans through the CIP for community development projects that help improve infrastructure and services in economically distressed communities, and to implement climate resiliency retrofits

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<sup>5</sup> These actions should include a focus on LMI households and members should ensure they do not result in adverse consequences for LMI and other historically marginalized communities.

<sup>6</sup> To support member banks, the FHLBank System should acquire high-quality, asset-level data from various sources to allow members to conduct loan-level analysis of potential exposures and gain an understanding of potential climate vulnerabilities in their housing and mortgage markets. This could include public data sets from federal agencies such as NOAA, USGS, HUD, FEMA, and EPA, as well as private data from real estate companies, lenders, and other financial institutions.



- Provide repair assistance to first-time homebuyers through the HSP for climate resiliency improvements, including for energy efficiency retrofits and home hardening

The FHLBank System should also incorporate climate resiliency into the FHLBank’s mortgage purchase and community-based AMA user goals; promote new development of and investment in affordable housing options in safer geographic areas that are less prone to climate events; and encourage FHLBanks to consider pilot programs to help borrowers build resiliency for existing buildings; and provide regular training and capacity-building programs for FHLBank staff and member institutions on climate risk management and resilience.

3. *Should there be requirements that ensure members who obtain the benefits of such programs are not engaged in conduct inconsistent with the public interest, such as predatory, discriminatory, or unfair practices?*

FHLBanks that engage in conduct inconsistent with the public interest should not be able to obtain the benefits of FHLBank programs. Ensuring ethical lending practices aligns member activities with the public interest and the integrity of the FHLBanks’ mission. Members should be required to adhere to fair lending practices, including avoiding predatory, discriminatory, and unfair practices. Members should also proactively engage in programs promoting financial literacy and responsible borrowing, and should be able to demonstrate a track record of compliance with regulatory standards and community reinvestment requirements.

Likewise, the FHFA should prohibit the relaxation of consumer protections for climate risk mitigation products and proactively prevent abusive products and practices. Instead, consumer protections should be enhanced and policies adopted that limit risk to the FHLBanks and their members while protecting homeowners and renters from lenders who use abusive tactics and leave families in precarious situations that put them at risk of losing their homes. Similarly, inflation of property valuations based on estimated cost savings from energy efficiency improvements should be prevented.

### III. CONCLUSION

We thank the FHFA for the opportunity to comment on this RFI regarding updates to the FHLBanks’ core mission statement. We believe the inclusion of climate resiliency considerations is imperative to ensuring sustainable access to safe and affordable housing. We would be pleased to discuss any questions you may have on our feedback. Please contact Kelsey Condon ([kcondon@ceres.org](mailto:kcondon@ceres.org)) or Ava Gulino ([agulino@ceres.org](mailto:agulino@ceres.org)) at your convenience.

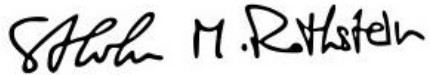
Sincerely,



Kelsey Condon  
Sr. Manager, Banking & Housing Finance Regulation  
Ceres Accelerator



Holly Li  
Program Director, Net Zero Finance  
Ceres Accelerator



Steven M. Rothstein  
Managing Director  
Ceres Accelerator