

RE: Climate and Natural Disaster Risk Management Request for Input

Federal Housing Finance Agency
Office of the Director
400 7th Street SW, 10th Floor
Washington, D.C. 20219

The following letter is a response to the Request for Information on Climate and Natural Disasters Risk Management. This letter reflects my first hand experiences in working with the GSEs and mortgage servicers post natural disasters. I served as the Executive Director of the HOPE NOW Alliance for eight years. HOPE NOW was a coalition of like-minded organizations including mortgage servicers, HUD-approved non-profits and government agencies. Together, we would work collaboratively to support home preservation. Initially established to help the national foreclosure and financial crisis of 2007, our efforts expanded significantly and included assisting victims of natural disasters. We even adjusted our signature outreach events to local communities impacted by natural disasters. These efforts involved a variety of partners including FEMA, the American Red Cross, the United Way and insurance companies. Some of our early natural disaster outreach efforts included the Florida Gulf Coast BP Oil Spill (2010) and Superstorm Sandy (2012). Recent efforts included Hurricane Harvey (2017) Hurricane Maria (2017), Northern California Wildfires (2018) and finally COVID-19. In addition to the events, the Alliance developed a task force, met weekly and worked collaboratively to improve outcomes and reduce consumer burdens. I'm personally very pleased to see FHFA take an active stance in reviewing improvements around natural disasters. In the last ten years I've spoken with hundreds of homeowners and industry participants. It's clear we must do more to support a robust housing market and help protect homeowners. Some of my observations lead back to the objectives identified in the RFI and some of my observations relate to GSE leadership.

Research Observations:

The RFI asks for suggestions on Research and Data that could help manage risk. FEMA, NOAA, NFIP, SBA and Cal Quake are some of the key partners to understanding the connections between housing and natural disasters. Additionally, large research institutes have produced reports that capture a long term view of housing issues and climate change. A relationship could be fostered that helps the Agencies better understand the disparities and impacts to liquidity and servicing. The GSEs would be able to provide deeper insights into asset management and lending concerns. NOAA's Department of Education has already identified high risk markets and future impacts. This is separate and apart from questions around National Flood Insurance Program and the FEMA Flood Risk Maps.

Going all the way back to Hurricane Katrina, there have been extensive research papers that capture suggested improvements with natural disasters and housing. It would be helpful to review these independent suggestions and understand how the GSEs can support some of the independent findings. In the last financial crisis, the GSEs developed special teams to address mediation and eminent domain issues. A similar special team approach could be taken to help with natural

disasters. I've noticed a consistent independent observation revolves around REO properties and leveraging distressed assets. For instance in Panama City, a community devastated by Hurricane Michael, had extremely thin housing stock before the storm. After Hurricane Michael, the GSEs had three properties in close proximity, which could be leveraged to help rapid rehousing. Small things can make a big difference when managing a crisis. An ongoing effort could be developed that provides housing solutions post disaster that brings together REO and pre foreclosure properties. The good news is that FEMA has money to purchase distressed properties and would be a perfect partner. The OIG recently produced a report that summarizes the ineffective use of Federal buyout programs, the technical expertise from the GSEs would greatly expand these efforts. Additionally, more flexible lending products are needed for impacted families.

Insurance Risks:

There are concerns around the National Flood Insurance Program (NFIP). The results of NFIP will have long-term consequences for the overall housing market. The GSEs should consider more than the discreet observation of their own properties and their relationships to the FEMA Flood Maps. Expanding their view would lead to greater understandings on consumer affordability and expanding opportunities for investment capital for Low-to-Moderate (LMI) communities. The pressures to build more housing will continue. Where are there reasonable opportunities to create more market liquidity while ensuring resiliency? I remember one NOAA presentation where the speaker said most of the Eastern United States should be considered a flood zone. It was a startling comment to imagine that the entire Eastern half of the Country should be covered with flood insurance. The observation calls into question how the industry thinks about risk, insurance coverage and expanding homeownership for LMI communities. There are major housing markets that sit (mostly) in a flood plain, like Houston, the fourth largest city in America. Will the GSEs decide not to purchase loans from Houston?

Consistent Standards and Outcomes:

The GSEs provide guidance for consistency and alignment in a fragmented market. The GSE guidelines are usually the benchmarks for all mortgage market activity and business standards. Quite often other investors and market participants will simply refer to GSE standards by referring to "common mortgage practices" which is default language for GSE standards. Is there an opportunity to recognize the centralizing role the GSEs play to expand resiliency? Sometimes by simply asking the questions, it forces the entire mortgage market to reflect and improve. A comparison would be when the GSEs actively addressed Diversity and Inclusion issues, they even identified a GSE D&I Officer. This motivated the entire industry to shift and create priorities within their own business models. It sets a tone and raises standards by simply identifying the issue as a priority. The steps of planning and remediation in collaboration with FHA, VA and USDA will save millions of lives.

Technical Fixes:

There are several technical fixes that the GSEs could focus on to help with outcomes on natural disasters. Both of the GSEs require consumer education for Home Possible and Home Path. Could

insurance, specifically flood insurance be part of the education module? For nominal amounts, a homeowner can take out FEMA insurance and greatly reduce their risks for out of pocket costs. Consumer education is often sidelined because there is a perverse incentive to lower the amount of the mortgage payment which means removing all extraneous costs, like expanded insurance. If homeowners understand that their modest investment will save them \$30,000 in basement repairs, they may choose to increase coverage. Help first time homeowners make better choices. The data is conclusive on the value of homeownership education and improved outcomes for modest insurance investments.

There is also a key deliverable that would assist millions of retiring baby boomers paying off their mortgage. A required letter from the mortgage servicer that stresses and demonstrates the importance of home insurance when the mortgage is paid off. This modest investment would save lives and preserves financial resources. In my experience, situations with families on fixed incomes were painful cases to manage and clearly no one had provided important information at a key moment in the homeownership cycle. An often-heard phrase was “I used to have insurance.”

Align post disaster home inspections and the paperwork process. Currently the GSEs are differentiated and it's unnecessary. Additionally the unified paperwork will improve performance with thousands of vendors and mortgage servicers. Although this task seems menial, the results would vastly improve current conditions and speed up recovery.

Update the GSE FAQ letters to include a priority on the consumer experience and consumer education. The current GSE focus is on continuity of business plan but lacks guidance on consumer care models. A consumer centered response could be reinforced from the top.

(Excerpt from GSE Handbook on Natural Disasters)

Disaster Recovery Procedures

Disaster recovery is defined as a documented process or set of procedures to recover and protect a business information technology infrastructure in the event of a disaster.

All sellers/servicers must have disaster recovery procedures in place that include:

- identification of critical functions and resources required to continue operations in the event of a business disruption or disaster,
- provisions for off-site retention of critical systems and data file resources, and
- alternate network and telecommunication capabilities.

Require servicers to develop and update Disaster Handbooks. Learnings should be captured and memorialized. Mortgage servicers are not consistent in how they manage distressed customers in “typical” disasters, like smaller hurricanes or tornadoes. I personally observed that Industry

learnings and processes did not reflect a maturing model between Superstorm Sandy and Hurricane Harvey. Five years had passed between storms and many operations hardly changed and there were no technology resources to improve process. Many servicers have developed Disaster Playbooks but it's clearly not required. The GSEs should be the aggregator and communicator on best practices and improved response. Ideally, with major occurrences, the industry collectively learns and memorializes information. The GSEs could connect the findings into the STAR Scorecard. All Industry participants' review and glean ideas from the STAR Scorecard. These collective improvements would also provide ultimate value to the victims that are most impacted from a natural disaster.

Technology:

Much of the current response to a natural disaster is a high touch experience with hundreds of documents. New businesses exist that expand solutions and remove consumer burdens. An ongoing examination into technology platforms would support market resiliency and technology adoption. We've moved into a phase of natural disaster response where it's easy to imagine systems and personnel will become exhausted. Hurricane Harvey should not be seen as an outlier so much as a sample of hurricanes to come. In 2018 we experienced five major Hurricanes with the entire geography of Florida and Puerto Rico receiving disaster declarations. The impacts from these storms are felt for years and failure to improve insurance and servicing leads back to lending and expanding homeownership. Again to my question earlier, will the GSEs just stop purchasing loans from Florida? With mounting frequency, technology will be the only way to manage costs and remove consumer burdens.

Thank you for the opportunity to provide comments. I hope these observations are helpful to the pursuits of FHFA. I would be happy to further discuss any of the topics in the letter or smaller ideas I've left off for the case of brevity. I truly believe that huge improvements are possible but it will take the involvement and focus of the GSEs to create substantial change.

Sincerely,

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