SMARTERSAFER.ORG
Americans for Smart Natural Catastrophe Policy

April 19, 2021

The Honorable Mark Calabria
Director
Federal Housing Finance Association
400 7th Street, SW
10th Floor
Washington, D.C. 20219

Dear Director Calabria:

The SmarterSafer Coalition (SmarterSafer), a diverse alliance of conservation and environmental groups, taxpayer-focused organizations, insurance and reinsurance interests, and housing advocates, is pleased to respond to the Federal Housing Finance Agency's (FHFA) request for information (RFI) regarding current and future natural disaster risks to the housing finance system.

Climate is a key factor that must be considered throughout the housing finance system and greater economy. SmarterSafer commends the FHFA for seeking input on this important issue and believes that federal government agencies must be active agents in understanding and underwriting for risk and promoting climate resilient housing and housing finance markets.

FHFA and the agencies that fall under its purview, including Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (FHLBanks), face stress from a changing climate. Floods, wildfires, and other catastrophic events pose threats to communities across the nation. Flooding is the most expensive type of natural disaster in the United States. According to data compiled by the First Street Foundation, 14.6 million properties across the country are at substantial risk of flooding; 5.9 million of those property owners are unaware of or underestimate that risk.[1] Wildfires roared through the western part of the country last year, burning more than 10 million acres of land and destroying 10,500 structures.[2] The "wildland-urban interface" (WUI) – the transition areas between unoccupied land and human development – is growing, exposing more communities to wildfires. From 1990 to 2010, the WUI increased from 30.8 to 43.4 million homes and expanded in surface area from 143,568,227 acres to 190,271,144 acres.[3] Additionally, earthquakes must be recognized as violent and costly natural disaster, and should be considered in the risk assessment calculations of the Enterpreprises. FHFA does not track earthquake risk or require insurance, and as of 2018, the value of homes exposed to earthquake risk exceeded 200 billion[4]. Given the exposure of regulated entities, the unfortunate reality is that earthquake risk leaves American taxpayers far too exposed. These and

[1] https://firststreet.org/flood-lab/published-research/2020-national-flood-risk-assessment-highlights/
[2] https://www.iii.org/fact-statistic/facts-statistics-wildfires
[3] https://www.nrs.fs.fed.us/news/release/wui-increase
[4] https://www.rstreet.org/wp-content/uploads/2018/09/No.-151.pdf

other extreme weather and natural disaster events, iimpact millions of Americans each year and merit comprehensive policy and regulatory solutions.

These disasters often result in uninhabitable housing stock on a temporary or permanent basis, a phenomenon that disproportionately impacts low- and moderate-income communities and communities of color. Many homeowners in these communities rely on the Enterprises and FHLBank members for housing finance solutions. As such, climate change and natural disasters have direct implications on the safety and soundness of these entities. SmarterSafer is particularly concerned by the risk this poses to taxpayers who have already committed billions of dollars in support to the Enterprises.

Given the exposure taxpayers have to regulated entities, SmarterSafer encourages FHFA to prioritize opportunities to encourage, underwrite, and invest in climate resilient housing. The increasing frequency of natural disasters stemming (at least in part) from climate change has serious implications for property values and pricing that must be analyzed by FHFA, the Enterprises, and the FHLBanks. Additionally, resilient housing infrastructure is necessary to protect homeowners and tenants in communities across the United States. Climate resilient housing often comes at a higher cost than housing built with more traditional methods and materials but also offers superior protection for inhabitants and taxpayers alike. Pre-disaster mitigation is a far more cost-effective approach than post-disaster recovery and rebuilding efforts. FHFA and its regulated entities should take such factors into account when making underwriting decisions. Importantly, and given the racial inequities that reflect and perpetuate discriminatory practices such as redlining, it is essential that FHFA provide additional support to create climate-resilient housing finance opportunities in low-income communities.

As stated in the RFI, FHFA is a prudential regulator and lacks expertise in climate science.[5] Therefore, it is essential that FHFA work with other federal agencies to access and analyze data that identifies future climate risk, and ensure that risk is accounted for in the business decisions of the Enterprises and FHLBanks, and the third parties with which they partner. Should such cooperation require statutory changes by Congress, SmarterSafer stands ready to support a legislative effort. FHFA is also encouraged to explore partnerships with non-profits and private sector entities that provide forward-looking climate data, and to consider data that identifies communities that face the greatest threat from natural catastrophes. Such data is readily available and would undoubtedly prove to be helpful in better understanding financial risks facing regulated entities. This is particularly important for those entities that have concentrations in disaster-prone areas.

FHFA should also seriously consider enhanced public-private partnerships and risk-transfer opportunities including credit risk transfers to guard against climate-related financial risk. The private sector, particularly the insurance industry, has both the willingness and capacity to take on additional risk associated with natural disasters. Organizations across the globe have called for stronger alliances to shift certain financial burdens associated with climate change and natural disasters from the balance sheets of governments to willing private sector participants.

[5] https://www.fhfa.gov/Media/PublicAffairs/Documents/Climate-and-Natural-Disaster-RFI.pdf, page 4.

Creation of a housing finance system that accounts for the pressing climate risks facing communities across the nation will help protect investments, communities, and lives in the future. SmarterSafer commends the FHFA for recognizing the important connections between climate risk and a stable housing finance system. We stand ready to be a resource as you continue with this important work.

Respectfully,

SmarterSafer Coalition

MEMBERS

Environmental Organizations

American Rivers
Center for Climate and Energy Solutions (C2ES) ConservAmerica
Defenders of Wildlife
National Wildlife Federation
Natural Resources Defense Council (NRDC) Surfrider Foundation

Consumer and Taxpayer Advocates

Coalition to Reduce Spending National Taxpayers Union
R Street Institute Taxpayers for Common Sense Taxpayers Protection Alliance

Insurer and Reinsurer Interests

Association of Bermuda Insurers and Reinsurers (ABIR) The Chubb Corporation
Liberty Mutual Group
National Association of Mutual Insurance Companies (NAMIC) National Flood Association
Reinsurance Association of America
Swiss Re
USAA

Mitigation Interests

Natural Hazard Mitigation Association

Housing

Habitat for Humanity National Housing Conference National Leased Housing Association

ALLIED ORGANIZATIONS

Allianz of America
American Consumer Institute
American Property Casualty Insurance Association (APCIA)
Center for Clean Air Policy
CoreLogic
Friends of the Earth
Institute for Liberty
Zurich Insurance