

Submitted via Electronic Comments:

<https://www.fhfa.gov/AboutUs/Contact/Pages/Request-for-Information-Form.aspx>

April 19, 2021

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

Re: Request for Input on Climate and Natural Disaster Risk Management at the Regulated Entities

We appreciate the opportunity to provide comments from the Federal Home Loan Banks (FHLBanks) regarding the Request for Input on Climate and Natural Disaster Risk Management at the Regulated Entities (RFI). Climate change is a critical global issue and its potential impact on all financial institutions, including the FHLBanks, warrants further consideration. The importance of climate change to the financial system has recently been recognized by a number of policymakers, including the Secretary of the Treasury, and the Governors of the Federal Reserve.

The FHLBanks have three main comments to provide in connection with the RFI:

- it would be beneficial if regulators and policymakers, including the FHFA, continue to cooperate and coordinate in providing any potential guidance and rules for financial institutions related to climate change risk management;
- the FHFA should consider both the mission and the safety and soundness of the FHLBanks, and ensure that any potential regulatory framework related to climate change risk management does not disproportionately impact financial institutions serving low-to-moderate income and historically marginalized communities; and
- the FHLBanks have extensive and well-developed enterprise risk management programs that should be leveraged to efficiently consider climate and natural disaster risks and support policy objectives.

The need for consistency and coordination across regulatory bodies

With respect to the benefit from continued and expanding cooperation and coordination among regulators in the area of climate change risk management, we recognize numerous recent comments and initiatives from a number of regulators, ranging from the Federal Reserve to the Securities and Exchange Commission (SEC), related to the wide-ranging potential impact of climate change on the financial, housing and other markets. We encourage the FHFA to coordinate with other regulators, particularly those impacting our members, such as the Federal Reserve, FDIC, OCC, NCUA and NAIC, so that there is a consistent and holistic regulatory position on these climate related risks. As the various

regulators work together on this topic and consider issuing any guidance or rules in this area on a joint basis, we request that the regulators allow sufficient time for compliance so that regulated entities can make any necessary changes to meet any new requirements. Jointly issued guidance will ensure greater coordination and consistency among regulators, and will assist regulated entities in implementing any new requirements. For example, since the FHLBanks are SEC registrants, it would seem pragmatic to leverage the expertise of the SEC in the area of disclosure, while the FHFA would focus on its specific expertise in the housing finance area. The Financial Stability Oversight Council could potentially take the lead as the coordinating body for consistent policymaking in the area of climate change. Furthermore, as climate-related data becomes more readily available, we request regulators consider methods for securely sharing such data with the FHLBanks to assist in informed, balanced risk decision-making. The availability of quality data will be instrumental in order for the FHLBanks to quantify climate exposures. It may also be beneficial for regulators to consider differences in the size and complexity of various financial institutions in establishing guidance or rules, particularly as it relates to the potential administrative burdens on our smaller member institutions.

Consideration of economic and racial equity and the mission of the FHLBanks

In developing a climate change and natural disaster risk management framework, the FHFA should consider both the mission and the safety and soundness of the FHLBanks, and ensure that such framework does not disproportionately impact financial institutions serving low-to-moderate income and historically marginalized communities, and that it provides opportunity for financial institutions to better assist such communities. In accordance with the FHFA regulation,¹ the mission of the FHLBanks is to provide members and housing associates with a reliable source of liquidity through financial products and services to assist in housing finance, community lending and asset-liability management. The liquidity the FHLBanks provide to their members and housing associates is used to support housing finance through advances secured by residential and other mortgage collateral, mortgage purchase programs, community investments, and other community development. A valuation change on collateral supporting FHLBank advances to members, especially one that is abrupt or inconsistent with the valuation of other market participants, or a substantial change in eligibility standards on collateral supporting advances or eligibility of mortgages for purchase through FHLBank acquired member asset (AMA) programs, could have a widespread impact across the membership and the communities they serve. Liquidity provided by the FHLBanks is vital for community development and affordable housing, in part by increasing investment and credit access in low-to-moderate income communities through the FHLBanks' smaller community-based members, including through the FHLBanks' Affordable Housing Programs (AHP) and Community Investment Cash Advance (CICA) programs.

Smaller, community-based financial institutions may be more vulnerable to the risks of climate change and natural disasters, as they may serve a higher concentration of borrowers in primarily higher risk areas (*e.g.*, areas prone to impacts from floods, droughts,

¹ 12 C.F.R. §1265.2 (2010).

and wildfires).² Furthermore, within such areas, low-to-moderate and historically marginalized communities are most vulnerable to extreme weather and climate-related events, and are more likely to experience greater impact.³ These historically underserved communities and the FHLBank members who serve them would be negatively impacted by a regulatory framework to address climate change and natural disaster risk that results in a reduction in liquidity and funding options, which currently include FHLBanks' advances, AMA and AHP and CICA programs.

Any regulatory framework should focus on direct and quantifiable risks to higher risk areas and underserved communities, established on the basis of objective, publicly-available, and reliable data. Any regulatory framework should not seek punitive enforcement measures such as restrictions to liquidity (whether changes to collateral eligibility supporting advances or availability of AMA) or other affordable funding provided by the FHLBank System. Smaller, community-based FHLBank members, the vast majority of which may ordinarily have limited access to another source of reliable economical funding on a same-day basis, may be negatively impacted by liquidity and affordable funding restrictions, which in turn will further marginalize and harm low-to-moderate income households and the overall communities these members serve.

To ensure that any proposed risk management framework promotes the mission of the FHLBanks and addresses the concerns raised herein, the FHLBanks respectfully request that the FHFA and other regulators openly adopt research performed by other governmental bodies with climate change expertise, while continuing to assess the potential risks and disparate impact of climate change and natural disasters on racial minorities, low-to-moderate income households, and other marginalized communities, as well as upon the community banks and other financial institutions that serve them. Here we emphasize the importance for the FHFA and other regulators to be mindful of the need for having forbearance and other regulatory mitigants in place in anticipation of future climate disasters. The nation's regulatory structure must be flexible and accommodative to ensure that lending to families to relocate or rebuild climate-resilient structures promptly occurs. This requires flexibility with respect to loan underwriting, secondary market mortgage purchases and collateral valuations.

Leverage the FHLBanks' existing enterprise risk management systems in this area

As a regulated entity, each FHLBank has invested considerable resources in its enterprise risk management program to support carrying out its mission in a safe and sound manner. While practices may vary across FHLBanks, each FHLBank's enterprise risk management framework is based on broadly accepted risk management principles and regulatory guidance in view of the particular risk profile of the FHLBank's geographical district and membership.

² *Managing Climate Risk in the U.S. Financial System: Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission* (Sept. 9, 2020).

³ See Michela Zonta & Zoe Willingham, *A CRA to Meet the Challenge of Climate Change*, Center for American Progress (Dec. 17, 2020, 9:03 AM).

The FHLBanks' enterprise risk management programs support the identification, assessment, and management of risks across a broad spectrum, including credit risk, market and financial risk, operational risk, reputational risk, liquidity risk, and business and strategic risk. While we recognize that climate related risks have some unique characteristics, such as the potential for tremendous knock-on effects over various time horizons, in most situations, we believe these climate related risks can be mapped to each FHLBank's existing enterprise risk categories, as opposed to defining a new enterprise risk category.

Over many years, the FHLBanks have managed their mortgage programs, investment portfolios and core operations following natural disasters from hurricanes, floods, earthquakes, hail, tornadoes, and wildfires. As such, we believe that the FHLBanks can leverage their current enterprise risk management programs to develop appropriate risk-based frameworks to manage climate related risks, such as those resulting from natural disasters, based on the FHLBanks' direct on-balance sheet exposure to climate related risks. Principally, the FHLBanks' direct on-balance sheet exposure relates to our mortgage programs and long-term MBS investment portfolio. In addition, indirect exposure from FHLBanks' pledged member collateral will continue to be monitored as it has been in the past. At the same time, we also understand that these long-term assets may be at increasing risk due to the potential for more frequent and severe natural disasters, which represents an emerging risk to the nation's housing market and our communities.

We appreciate the opportunity to comment on the FHFA's climate change initiative and understand that this is a critical time for government, industry, GSEs and climate experts to work together to better understand, assess and mitigate the risks associated with climate change while also taking advantage of the opportunities that lie ahead of us. We would welcome the opportunity to discuss this matter with you.

Very truly yours,

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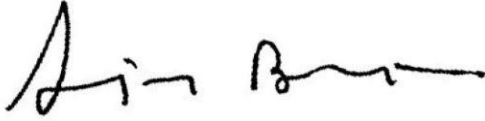
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