April 19, 2021

Office of the Director
Federal Housing Financial Agency
400 7th Street SW
Washington, DC 20219

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

Dear Sir or Madam:

On behalf of the 2.2 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the Request for Information (RFI) recently published by Federal Housing Financial Agency (FHFA) regarding climate and natural disaster risk management at Fannie Mae, Freddie Mac and the Federal Home Loan Banks (the FHLBanks) (collectively, the regulated entities).

Background

The FHFA recognizes the risks that climate change and natural disasters pose to the stability of the economy, the housing finance system, and the regulated entities. The increased severity and frequency of natural disasters will likely result in increased delinquency rates, default rates, credit losses, credit related expenses, and loan loss frequency and severity. The FHFA recognizes that traditional risk management and modeling techniques based on historical datasets may be of limited use and is seeking feedback on a variety of topics related the climate and natural disaster risk.

Topics of inquiry in the RFI include the nature of climate and natural disaster risks to the regulated entities over the short- and long-term, and how these might affect the regulated entities and national housing finance markets. The RFI also asks what risk management strategies should be used to address climate and natural disaster risks and how the regulated entities should support their housing finance missions while minimizing the impact of climate and natural disaster risk.

Mitigating the risk of climate change and its attendant natural disasters on the housing finance sector must be accomplished through a package of mutually reinforcing policies executed by the FHFA, the regulated entities, HUD, the Environmental Protection Agency (EPA), the Federal Emergency Management Administration (FEMA), and the entire housing sector to improve the resiliency of our housing stock for all Americans. For the housing finance sector, mitigation strategies for the reduction of risk includes encouraging compliance with up-to-date building codes, financing the retrofitting and improved resiliency of existing housing stock, and ensuring that those financial institutions who are able and willing to assist Americans most at risk have access to lending liquidity and support. This is the only sustainable way to manage this risk that does not ultimately abandon low- and moderate-income Americans. These combined mitigation efforts, supported by interlocking policies, would improve the resilience of housing against increasingly intense and frequent natural disasters and reduce losses to the regulated entities.

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Building Codes

Housing cost and affordability must not just be considered in how to respond to climate risks, it must be the primary consideration. Cheaper housing is often older, located in flood zones where property is less expensive, and built with substandard materials that cannot withstand extreme weather. The number of affordable housing units in the United States exposed to extreme coastal water levels and therefore at risk of flooding is projected to triple by 2050. Without some action, the result will be an acceleration in the number of unhoused Americans and a glut of abandoned and damaged structures not suitable for habitation.

A shift towards better, more resilient building codes must not price out low- and moderate-income borrows from buying new construction. Ultimately, the savings pay for themselves, a 2019 study by the National Institute of Building Sciences found that adopting the latest building codes saves $11 per $1 invested. The FHFA should offer preferential pricing for new construction that meets most recent IRC standards, and consider strengthening programs intended to support low-income, moderate-income, and first-time homebuyers purchasing resilient, newly constructed homes.

Retrofitting

Retrofitting existing structures can be done both to improve sustainability and to improve resilience and adaptability in the face of increasingly severe climate risk. Retrofitting is not a solution for all properties or geographic locations. Retrofitting projects can include adding storm windows and shutters, creating water barriers or flow-through design to avoid flood damage, strengthening roof attachments, reinforcing walls and floors, and elevating electrical and water systems. However, the decision as to when retrofitting should be available cannot solely be one of the value of the property, it must also consider the future value of resilient housing stock in the area and for the income level.

Borrowers who lack sufficient equity for borrowing may struggle to obtain financing. Further, the limited ability to securitize these loans results in a lack of liquidity for making these loans. Retrofitting programs that improve liquidity, offer preferential pricing, and permit alternative underwriting criteria are a necessary and important tool in improving the resilience of American housing. The FHFA should avoid any pricing adjustments for these kinds of retrofitting efforts that would discourage low- and moderate-income borrowers from undertaking them.

The FHFA's currently policy against the purchase of mortgage loans with liens established by the PACE Program is understandable and CUNA shares the FHFA's concerns. However, this impasse must be resolved so that resiliency can improve. CUNA urges the FHFA to work with the Consumer Financial Protection Bureau (CFPB) to quickly promulgate a PACE financing rule that subjects PACE programs to the Truth in Lending Act (TILA) requirements. The FHFA should also work with financial services industry and consumer advocates to educate state and local lawmakers on the consumer protection issues and negative incentives that super-liens create in the housing finance system. These efforts must be undertaken holistically across the entire housing finance system to ensure success.

CUNA applauds the regulated entities' programs offering preferential pricing on green multifamily projects. Without these kinds of incentives, only those who can afford to improve the resiliency of their home will retain both their housing and the wealth built by homeownership. Similar programs should be designed not only for sustainable multifamily housing but also for resiliency retrofitting projects. As only a fraction of our housing stock meets up-to-date building codes, retrofitting projects are necessary to ensure safe, habitable housing for the American people.

The FHFA and the whole of the housing financing system must ensure that minority borrowers and low- and moderate-income borrowers are not abandoned to increased insurance premiums, rising housing costs, and devasted property values. The risk must be mitigated throughout the entire housing sector by leveraging financial tools to improve our housing stock, not simply to avoid holding the bag. Americans of all income levels deserve opportunities to secure safe, resilient, and affordable housing. Credit unions stand ready to help their members achieve the goal of sustainable and resilient housing. The FHFA must ensure that credit unions seeking to assist their members have access to the full range of tools the regulated entities can provide, including access to the secondary market, the ability to originate and sell conforming loans, and equal participation and access in opportunities provided by the regulated entities.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,

Bradley D. Douglas

Brad Douglas
President/CEO