NATIONAL HOUSING TRUST

April 19, 2021

Federal Housing Finance Agency
Office of the Director
400 Seventh St. SW
10th Floor
Washington, DC 20219

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

Dear Director Calabria,

Thank you for the opportunity to provide comments to the Federal Housing Finance Agency (FHFA) on the current and future climate and natural disaster risk to the housing finance system and to the regulated entities: Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (the FHLBanks). The National Housing Trust (NHT) is a national nonprofit organization dedicated to preserving and improving affordable housing, ensuring that privately owned rental housing remains in our affordable housing stock and is accessible to low-income families and sustainable over time. Using the tools of real estate development, rehabilitation, finance, and policy advocacy in conjunction with sustainable practices, NHT is responsible for saving more than 36,000 affordable homes in all 50 states, leveraging more than $1.2 billion in financing. NHT is dedicated to sustainable development that reduces energy use and creates a healthier living environment for families and children.

Climate change puts millions of households at risk of uninhabitable conditions, exacerbating the vulnerabilities of lower income households and communities of color. As communities suffer multiple events with increasing frequency, the number of impacted housing units, especially affordable multifamily housing units is staggering. NHT and Climate Central recently published a study estimating that, "by 2050, virtually every coastal state is expected to have at least some affordable housing exposed to more than one coastal flood risk event per year, on average—up from about half of coastal states in the year 2000."[1] Yet nearly 200,000 federally subsidized rental housing units are located in floodplains. Another report projects that 30 million people live in the combined 100-year and 500-year flood plains, mostly low-income and communities of color.[2]

In this context, NHT makes the following recommendations to FHFA help identify and assess climate and natural disaster risk and enhance its supervisory and regulatory framework.

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[1] Climate Central. "Report: Coastal Flood Risk to Affordable Housing Projected to Triple by 2050.", November 24, 2020. https://www.climatecentral.org/news/report-coastal-flood-risk-to-affordable-housing-projected-to-triple-by-2050.

[2] NYU Furman Center. "Report: More Than 30 Million People Live in U.S. Floodplains." https://furmancenter.org/thestoop/entry/new-data-from-the-nyu-furman-center-finds-that-more-than-30-million-people.

I. Identifying and Assessing Climate and Natural Disaster Risk

What methodologies, datasets, variables, assumptions, future climate scenarios, and measurement tools are used to measure and monitor climate risk to the national housing finance markets? Describe any gaps in available data that limit the ability to measure such risks. How could such data gaps be resolved?

- Future risk to coastal housing stock due to sea level rise plus storms is not adequately represented by Federal Emergency Management Agency (FEMA) Flood Insurance Studies (FIS) and FEMA Flood Insurance Rate Maps (FIRMs) because current methods do not incorporate projected rising sea levels.
- A 2019 Research Report by Climate Central and Zillow using well-established sea level rise models and flood models found that recent housing growth rates are faster in ten-year flood-risk zones than in safer zones in a third of all coastal states. It found that unchecked greenhouse gas emissions would expose 3.4 million existing homes worth $1.75 trillion to a 10 percent or higher annual risk of flooding by 2100. For more information and methodology visit https://www.climatecentral.org/news/ocean-at-the-door-new-homes-in-harms-way-zillow-analysis-21953
- In addition, recent analysis published in Environmental Research Letters by scientists at Climate Central, University of California, Berkeley, and San Francisco State University, along with staff from the National Housing Trust helps to close the gap in the understanding of the risk rising seas and coastal flooding poses to the nation's affordable housing stock.[3] The combination of physical vulnerability of affordable housing, socioeconomic vulnerability, and more frequent flooding due to sea level rise presents a triple threat within the next 30 years to residents and owners of the country's already scarce affordable housing. The number of affordable housing units at risk from coastal flooding and sea level rise is expected to increase more than three-fold over the next three decades. By 2050, virtually every coastal state is expected to have at least some affordable housing exposed to more than one "coastal flood risk event" per year, on average—up from about half of coastal states in 2000. Each affordable housing building's footprint was assessed for the annual probability of experiencing at least one coastal flood risk event each year. These building-level probabilities were integrated to estimate the total expected annual exposure within various administrative levels.
- Climate Central's web tool allows users to explore what affordable housing in the United States could be threatened by sea level rise and coastal flooding in the coming decades, under multiple pollution scenarios. The map allows users to examine affordable housing at risk by state, city, county, congressional district, state legislative district, or zip code.
- NHT recommends that FHFA expand awareness of the foreseeable risks that communities face by providing address-level data on climate risk across the country. Address-level data can help identify the risks of climate-related events on property and mortgage portfolios. This risk assessment can protect residents, properties, and financial investments from harm.
- We also urge FHFA to consult with key stakeholders, including housing advocates, civil rights groups, and community organizations to better understand climate risk and the impact on communities of color and low-income households before moving forward. Whenever possible, FHFA should coordinate with and support local groups seeking effective community-wide solutions. FHFA should confer especially with representatives of communities where disasters previously took place, to learn about the impact on the housing markets in those areas, how policies worked in practice, and what was effective in helping families and communities rebuild.

[3] https://iopscience.iop.org/article/10.1088/1748-9326/abb266

II. Enhancing FHFA's Supervisory and Regulatory Framework

How might the regulated entities support their housing finance missions while minimizing the impact of climate and natural disaster risk?

- Low-income communities are disproportionately impacted by climate risk therefore the regulated entities should distribute costs across housing portfolios via internal cross-subsidy, rather than requiring low-income communities to cover the expense of being priced out of less risky locations. Property level pricing should be distributed across the system to equitably distribute regional climate risks.
- All the stakeholders associated with the development, purchase, and ownership of a property play a role in contributing to its risk and have a stake in mitigating the physical damages and financial costs when that risk materializes. That includes the housing markets, regional economies, and state and local governments that rely on a stable housing stock the financing for it. The risks facing the regulated entities should not be transferred from the regulated entities to the Federal Housing Administration, which would just shift the risk to the federal government, nor should the regulated entities issue blanket loan level pricing adjustments, which would have dramatic impacts on local housing markets.
- As part of FHFA's first Strategic Goal, to ensure safe and sound regulated entities, NHT recommends that the Agency initiate a comprehensive national climate change adaptation planning process to guide how the Enterprises assess, underwrite, and operate mortgages. The adaptation plan should assess risk, incorporate financing tools, and recommend solutions and actions to support and fund climate resilient communities.
- NHT urges FHFA to require that the Enterprises' Duty to Serve the affordable housing preservation market should incorporate climate resilience as part of preservation. The Enterprises' Underserved Markets Plans should include resilience analyses and provide financing to promote climate resilience within rental housing serving low-income communities.
- The Enterprises' lending applications should require climate disclosure and mandate that every multifamily property have a business continuity plan. Climate disclosure would ask applicants about their local climate risks and the measures taken to adapt to or mitigate those risks. Disclosures can provide critical data to help reduce mortgage portfolio exposure to climate risks. Since vulnerable populations disproportionately live in areas with the highest climate risk, the Enterprises should expand financing in areas that are less exposed to risk, while prioritizing lending to low-income and marginalized communities.
- The Enterprises' required scope of work for Physical Needs Assessments should incorporate an analysis to assess the climate resilience of the property. The analysis should assess the potential for energy efficiency building upgrades and solar and battery storage to improve building resiliency, regardless of whether the building owner is applying for a green building mortgage product. As an example, in 2018, NHT partnered with Enterprise Community Partners and New Ecology to create the nation's first Affordable Housing Resilience Assessment Tool to determine the climate resilience of the affordable housing stock in the District of Columbia.[4]
- FHFA should be intentional in considering how any new climate risk procedures will impact investment in disadvantaged communities and communities with significant concentrations of Black, Indigenous, and People of Color (BIPOC). NHT urges FHFA to center equity as it balances the dual objectives of furthering the regulated entities' housing finance missions while minimizing the impact of climate and natural disaster risk.

[4] The Affordable Housing Resilience Assessment Tool can be found at https://doee.dc.gov/climateready.

- FHFA must ensure that the regulated entities, the financial institutions, and the communities they serve have the tools, the knowledge, and the capital to reduce risk to vulnerable communities and assets. Since low-income families disproportionately reside in high-risk areas, FHFA must avoid creating tools that create a disparate impact in the flow of capital to disadvantaged communities before they can be made climate resilient or before new affordable housing is made available in less risky locations. There must be a transitional period to prevent harming low-income and vulnerable populations.

Thank you for the opportunity to provide comments in response to FHFA's questions. NHT shares the Agency's commitment to addressing the climate crisis, promoting resilience, and protecting low-income communities. Please do not hesitate to contact me at eluriehoffman@nhtinc.org or 202-333-8931 x130.

Sincerely,

Ellen Lurie Hoffman

Ellen Lurie Hoffman
Senior Director of Federal Policy
National Housing Trust