Federal Housing Finance Agency (FHFA)
Office of the Director
400 7th Street SW, 10th Floor
Washington, DC 20219

October 25, 2021

To Whom It May Concern,

Thank you for the opportunity to respond to FHFA's Request for Input (RFI) on the Enterprise Equitable Housing Finance Plans. RMI commends FHFA's leadership in pursuing this new framework to advance racial equity and believes the Enterprises can be instrumental in reducing racial and ethnic homeownership gaps, preserving affordable housing, and reinvesting in formerly redlined areas.

Our submission provides context on **why** FHFA and the Enterprises should take action to incorporate and address key barriers to sustainable housing opportunities that are currently missing from the RFI – specifically with respect to the **disproportionate climate risks and energy burdens** that adversely impact communities of color and formerly redlined areas. This response will also propose **how** FHFA and the Enterprises can start building on readily available solutions to promote equitable lending standards, set strategic goals to address these challenges, and reduce ongoing environmental injustices that contribute to inequities in the housing market. Specific questions addressed from the RFI are referenced by number [Q#] where applicable.

Introduction to RMI

RMI is an independent, non-partisan, non-profit organization of over 400 experts working across disciplines to accelerate the clean energy transition and improve lives through market-based change. Earlier this year, RMI published a co-authored and peer reviewed report, *Build Back Better Homes: How to Unlock America's Single-Family Green Mortgage Market,* framing the market opportunity to scale the Enterprises' single-family green mortgages (and MBS) as a key tool to expand sustainable housing opportunities. By enabling information transparency, incentives, and low-cost financing solutions, FHFA and the Enterprises can take meaningful action to improve racial and social equity in the mortgage market while also promoting a healthy, resilient, and sustainable future. [Q2, Q11]

Why FHFA and the Enterprises Should Take Action

As part of the immediate and future Equitable Housing Finance Plans, FHFA and the Enterprises must consider how energy burdens and increasing climate events disproportionally affect already underserved communities across the US. On average, households earning under $70,000 a year spend roughly 7% of their net income on energy costs (relative to the national average of 3%), and studies have found that the lowest-income households spend nearly 20% of their income on energy bills.[i] Today, over **25 million** low-income households experience **high energy burdens** nationally.[ii] These burdens are most pronounced in communities of color, where median energy burdens are roughly **43% higher** for Black households and **20% higher** for Hispanic households when compared to non-Hispanic White households.[iii] [Q2]

Research indicates that low-income and minority families are more likely to live in energy-inefficient homes with outdated appliances and faulty energy systems.[iv] Inadequate regulations and few frameworks to support households in securing affordable upgrades reinforce **significant health inequities** as well. Dated gas-run devices, leaky refrigerants, and combustion-based appliances can result in alarming indoor air pollution levels that can contribute to increased healthcare costs, further straining these households financially.[v] Given the inflated energy burdens many low-income households face, turning to dangerous alternatives such as using ovens to heat homes or risking unsafe indoor temperatures have become common strategies for these families to save on energy bills.[vi]

These financial implications are even more exacerbated by increasingly frequent climate events. Today, a **vast majority** of Americans are at risk of experiencing financial repercussions from the growing impacts of climate catastrophes.[vii] Research from the First Street Foundation's redlining map and the University of Richmond's Mapping Inequity Project found a **clear correlation between formerly redlined areas and their flood risk**.[viii] One analysis identified over **$107 billion** worth of homes at high risk of flooding in formerly redlined areas across 38 major US cities, highlighting the need for climate risk transparency and disclosure.[ix] [Q2, Q4]

The **aftermath of climate events** also poses significant financial burdens to homeowners. Over the past five years, climate related disasters from extreme weather have cost Americans an additional **$600 billion** in physical and economic damages.[x] Research conducted by the Urban Institute shows that households struggling financially prior to a climate disaster often experience the most detrimental financial impacts following a climate event – and these statistics are especially true for households of color.[xi] On average, people living in communities of color hit by a mild climate disaster experienced a **31-point credit score decline**, as compared with a 4-point decline in majority-white neighborhoods.[xii] Many of these homeowners are not fully insured for the replacement cost of the damage and often get displaced for longer periods. Climate risk, if not considered and properly addressed, will have serious implications for minority homeowners and will continue to exacerbate inequities in the housing market.

Fortunately, **climate resilient retrofits and energy efficiency and electrification upgrades can help** by improving homeownership affordability and health outcomes, while also reducing carbon pollution and risk from current and future climate events. They can also increase the quality of the supply of affordable housing available in racially or ethnically concentrated areas of poverty. The most exhaustive cost-benefit analysis of natural hazard mitigation to date found that every $1 invested in home retrofits to protect against floods and hurricanes can save $6; every $1 invested in retrofits to protect against fires and earthquakes can save $2 and $13, respectively.[xiii]

Recommendations to FHFA

Given the points outlined above, it is critical that FHFA and the Enterprises consider the intersection of our nation's affordable housing crisis, racial inequities, and climate injustices when shaping the Enterprise Equitable Housing Finance Plans. The recommendations laid out below are in response to the current gap in the RFI's scope as it relates to energy and climate issues for these underserved communities.

- **The Enterprises should incorporate objectives and activities to address the disproportionate climate risks and energy burdens within communities of color:** It is clear that energy- and climate-related financial risks are no longer a future problem.[xiv] FHFA and Enterprises must use this opportunity to thoughtfully design solutions and policy updates to avoid further adversely affecting these already underserved communities. Current and future Equitable Housing Finance Plans should explicitly incorporate these goals with tailored solutions. For example, the plans should add an objective to *"Increase the quality, health and safety, and resilience of affordable housing in racially or ethnically concentrated areas of poverty by financing energy efficiency and electrification retrofits and other resilience improvements".* Energy burdens are considered in the Enterprises' Duty to Serve plans, but these plans do not go nearly far enough to address this challenge and improve outcomes at scale. The Equitable Housing Finance Plans offer an opportunity to develop more ambitious plans tailored to the needs of minority communities. [Q5, Q11]
- **FHFA should collaborate with HUD to develop plans and standards consistently across federal agencies to avoid market confusion:** The Biden Administration just released a comprehensive government-wide strategy to measure, disclose, manage and mitigate the systemic risks that climate change poses to American families.[xv] Included in this strategy are plans for HUD to work with OMB, USDA, and VA on identifying options to incorporate climate-related considerations into single-family mortgage originations. Additionally, HUD's Climate Adaption Plan outlines specific actions to enhance its mortgage financing to reduce climate-related risk. Given the Enterprises' market share and implications for lower-income communities and communities of color, FHFA should

also be involved in this process to ensure that the Enterprises' plans and standards leverage a common framework with other federally-backed housing finance actors. [Q12]

- **Assess climate risk data in relation to racial and social inequities**: In partnership with HUD, the FHFA should also work with NOAA and FEMA to develop climate risk data or purchase data from third party entities (e.g. Jupiter Intelligence, Four Twenty Seven, First Street Foundation). When combining climate risk data with the FHFA's Underserved Areas Data and National Mortgage Database (NMDB), FHFA and the Enterprises can uncover valuable insights to better inform resource allocation for communities most at risk to climate catastrophes.[xvi] The Enterprises must take the lead in assessing climate-related risks for homes. Disclosing these risks to consumers also reduces the likelihood of low- to moderate-income (LMI) and minority borrowers unknowingly purchasing homes with a high likelihood of climate damages in the future. [Q2, Q4]
- **Leverage asset-level home energy data to identify and support homeowners struggling with energy burdens**: The Enterprises should invest in auto-populating home energy data into their automated underwriting systems and corresponding verification systems, and should ensure this data is also disclosed to consumers. Comprehensive, nationally-standardized home energy databases and tools already exist, including the National Renewable Energy Laboratory's (NREL) ResStock™ database, and can be utilized for this purpose. Energy use data can aid lenders in targeting products and resources where they are most needed, as well as support borrowers in better understanding expected energy costs prior to purchasing a home to help mitigate untenable housing situations for lower-income and minority borrowers. [Q2, Q4]
- **Tactically deploy single-family green mortgage products to help reduce the racial homeownership gap and increase sustainable housing opportunities in communities of color:** Fannie Mae's HomeStyle Energy® and Freddie Mac's GreenCHOICE® mortgage products – although woefully underutilized to date – can be streamlined and scaled up to finance single-family home energy and resilience improvements that reduce energy burdens and climate risk for the underserved borrowers most in need. The Equitable Housing Finance Plans should include targeted efforts to pilot and implement green mortgage programs in, for example, some of the highest energy burdened zip codes of the US and communities of color – including through a concerted lender campaign. [Q2, Q3, Q12]
    - **Reaching and serving these communities:** Plans should incorporate a comprehensive delivery mechanism to achieve the RFI's stated goals. In addition to leveraging home energy and climate risk data described above and simplifying key green mortgage process steps for lenders (as proposed in RMI's report linked on page 1), this should involve down payment assistance, expanded credit scoring methods, counselling services for first time homebuyers, and additional support for LMI borrowers such as subsidized home energy assessments. Such plans should build on the Enterprises' Duty to Serve plans for 2022-24 and should be further developed in partnership with counselling and local housing agencies as trusted partners for effective implementation.

Resources for Support

RMI believes that failure to consider and address increasing climate risk and energy burdens will only further exacerbate racial and ethnic wealth and homeownership gaps. We stand ready and willing to support FHFA and the Enterprises in developing such plans and solutions, including those described above. RMI works with a range of technical partners, market actors, and ambitious state and local governments, and can support FHFA and the Enterprises when it comes to techno-economic analysis, research, testing and piloting solutions, facilitation and convening of diverse stakeholders, and more. Please contact us to discuss these recommendations in greater detail: Greg Hopkins, Manager: ghopkins@rmi.org; Ellie White, Senior Associate: ewhite@rmi.org. Thank you for your consideration.

[i] Rita Ballesteros, David Heslam, and Greg Hopkins, *Build Back Better Homes: How to Unlock America's Single-Family Green Mortgage Market*, RMI, 2021, http://www.rmi.org/insight/build-back-better-homes; and Dana Bate, "PUC vote to make utility bills more affordable for low-income Pennsylvanians," WHYY, September 20, 2019, https://whyy.org/articles/puc-votes-to-make-utility-bills-more-affordable-for-low-income-pennsylvanians/

[ii] Ariel Drehobl, Lauren Ross, Roxana Ayala, *How High are Household Energy Burdens?* American Council for an Energy-Efficient Economy, 2020, https://www.aceee.org/research-report/u2006.

[iii] Rita Ballesteros, David Heslam, and Greg Hopkins, *Build Back Better Homes: How to Unlock America's Single-Family Green Mortgage Market*, RMI, 2021, http://www.rmi.org/insight/build-back-better-homes

[iv] Jamal Lewis, Diana Hernández, and Arline T. Geronimus, "Energy efficiency as energy justice, addressing racial inequities through investment in people and places," Energy Efficiency 13, 419-432 (2020), https://doi.org/10.1007/s12053-019-09820-z.

[v] Brady Seals and Andee Krasner, *Health Effects from Gas Stove Pollution*, Rocky Mountain Institute, Physicians for Social Responsibility, Mothers Out Front, and Sierra Club, 2020, https://rmi.org/insight/gasstoves-pollution-health.

[vi] Rita Ballesteros, David Heslam, and Greg Hopkins, *Build Back Better Homes: How to Unlock America's Single-Family Green Mortgage Market*, RMI, 2021, http://www.rmi.org/insight/build-back-better-homes.

[vii] Laura A. Bakkensen and Lala Ma, "Sorting over flood risk and implications for policy reform," *Journal of Environmental Economics and Management*, Volume 104, 2020, ISSN 0095-0696, https://doi.org/10.1016/j.jeem.2020.102362.

[viii] Lily Katz, "A Racist Past, a Flooded Future: Formerly Redlined Areas Have $107 Billion Worth of Homes Facing High Flood Risk—25% More Than Non-Redlined Areas," *Redfin News*, March 14, 2021, https://www.redfin.com/news/redlining-flood-risk/.

[ix] Ibid.

[x] "FACT SHEET: Biden Administration Roadmap to Build an Economy Resilient to Climate Change Impacts," White House Press Release, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/10/15/fact-sheet-biden-administration-roadmap-to-build-an-economy-resilient-to-climate-change-impacts/.

[xi] Ratcliffe et al., *Insult to Injury: Natural Disasters and Residents' Financial Health*, Urban Institute, 2019, https://www.urban.org/research/publication/insult-injury-natural-disasters-and-residents-financial-health/view/full_report

[xii] Ibid.

[xiii] Mitigation Saves: Mitigation Saves up to $13 per $1 Investment, National Institute of Building Sciences, 2020, https://cdn.ymaws.com/www.nibs.org/resource/resmgr/reports/mitigation_saves_2019/mitigationsaves2019_complete.pdf.

[xiv] Christopher Flavelle,"U.S. Disaster Costs Doubled in 2020, Reflecting Costs of Climate Change," *New York Times*, January 7, 2021, https://www.nytimes.com/2021/01/07/climate/2020-disaster-costs.html?action=click&module=News&pgtype=Homepage.

[xv] "FACT SHEET: Biden Administration Roadmap to Build an Economy Resilient to Climate Change Impacts," White House Press Release, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/10/15/fact-sheet-biden-administration-roadmap-to-build-an-economy-resilient-to-climate-change-impacts/.

[xvi] "National Mortgage Database (NMDB) Aggregate Data," *Federal Housing Finance Agency*, 2021, https://www.fhfa.gov/DataTools/Downloads/Pages/National-Mortgage-Database-Aggregate-Data.aspx.