Ceres
Ceres Accelerator
for Sustainable Capital Markets

June 26, 2023

Clinton Jones
General Counsel
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20219
Via FHFA Open for Comment or Input Page

Re: RIN 2590-AB29 – Fair Lending, Fair Housing, and Equitable Housing Finance Plans

Dear Mr. Jones,

It is a pleasure to submit comments on behalf of Ceres and the Ceres Accelerator for Sustainable Capital Markets. Ceres is a nonprofit organization with over 30 years of experience working on climate change with the world's leading investors and companies to drive sustainability in the bottom line and through ambitious federal and state climate and clean energy policies. The Ceres Accelerator works to transform the practices and policies that govern capital markets to reduce the worst financial impacts of the climate crisis. It spurs capital market influencers to act on climate change as a systemic financial risk, driving the large-scale behavior and systems change needed to achieve a just and sustainable future and a net zero emissions economy.

Ceres works with leading global investors and companies. Our Investor Network currently has over 220 investors that collectively manage over $50 trillion in assets. Ceres is a founding partner of the Net Zero Asset Managers Initiative and the Paris Aligned Investor Initiative, which includes investors focused on sustainable investments within their portfolios and other assets. Our Company Network, of which Fannie Mae is a member, includes approximately 60 of the largest global companies and banks with whom we work on an in-depth basis on issues including climate strategy and disclosure.

In this letter, Ceres provides input on Federal Housing Finance Agency's (FHFA) proposed rulemaking to codify the agency's existing practices and programs regarding fair housing and fair lending oversight of its regulated entities, including the Equitable Housing Finance Plan program for Fannie Mae and Freddie Mac (Enterprises). Ceres strongly supports this new addition as essential to promote equitable and sustainable housing opportunities for underserved communities.

I. INTRODUCTION

Ceres regularly engages with the FHFA, and previously submitted comments in response to the agency's Climate and Natural Disaster Risk Management RFI, 2022-2026 Strategic Plan, Federal Home Loan Bank System Climate Resiliency (Mar 2023), and Enterprise Regulatory Capital

Framework. The two recent submissions highlight respectively how the Federal Home Loan Banks (FHLBanks) and the Enterprises are exposed to various climate-related financial risks and provide recommended actions for FHFA to ensure that the FHLBanks and Enterprises operate consistently with safety and soundness and with the public interest.

Further, Ceres' annual Climate Risk Scorecard assesses the actions that U.S. federal financial regulators have taken within their existing authority to address the systemic impacts of climate-related financial risk. In 2020, we published the report Addressing Climate as a Systemic Risk: A Call to Action for U.S. Regulators, which recommends practical actions FHFA can take to address climate risks. In June 2022, we published our second annual Climate Risk Scorecard for nine federal financial regulators, including the FHFA, assessing regulator actions to protect our capital markets, financial institutions, and communities from climate-related financial risk. The third iteration, expected to be published in July, will capture the FHFA's actions and progress, and provide additional recommendations for action.

Additionally, we published a paper with the Mortgage Bankers Association on Housing Finance and Climate Risk in February 2023. The article outlines the critical role the housing and mortgage industries play in reducing the risks posed by climate change and financing an equitable transition to a sustainable future.

A. Despite Progress, Disparities Persist in Lending, Homeownership, and Wealth

Despite progress driven by FHFA, lending and housing finance disparities remain a stark issue and contribute to economic inequality. In August 2022, Ceres provides detailed comments to the Fed, OCC, and FDIC on the proposed Community Reinvestment Act NPR, which provided recommendations on financial institutions' climate resiliency activities to help meet the credit needs of LMI communities in which they do business, including in housing.

Analysis by NCRC shows continuing disparities in loan denials by race, and when people of color received home loans, their equity accumulation was less. While homeownership serves as an important avenue for building wealth and the transfer of wealth across generations, disparities risk enduring across family life cycles. In 2017, the Urban Institute quantified a 30% homeownership gap between white Americans and black Americans. Across the U.S., households of color hold a smaller share of housing wealth and own homes of lower value. Studies of 61 metro areas reveal the continued practice of modern-day redlining. Analysis of Chicago showed that "68.1% of dollars loaned for housing purchases went to majority-white neighborhoods, while just 8.1% went to majority-black neighborhoods and 8.7% went to majority-Latino neighborhoods."

These persistent lending disparities exacerbate the racial wealth gap. Research from the Fed reveals that the typical White family has eight times the wealth of the typical Black family and five times the wealth of the typical Hispanic family. As Mehrsa Baradaran notes in her book, *The Color of Money: Black Banks and the Racial Wealth Gap*, "[w]hen the Emancipation Proclamation was signed in 1863, the black community owned less than 1 percent of the total wealth in America. More than one hundred and fifty years later, that number has barely budged."

B. Climate-Related Financial Risks and Housing

Financial institutions are exposed to various climate-related financial risks, and the Enterprises and FHLBanks (the Entities) are no exception. Climate risk – which represents the potential financial losses associated with physical and transition risks resulting from climate change – pose significant financial risks to the nation's housing and mortgage markets. Both physical and transition risk can result in significant financial losses for the Entities and the communities they serve, jeopardizing affordable housing goals. In 2022 alone, 3.4 million people lost their homes temporarily or permanently due to climate events such as fires, floods, and droughts.

Physical risks include direct losses from weather-related events (including floods, droughts, and extreme temperatures and storms), as well as indirect losses from the effects of climate change on assets, businesses, and industries. The Entities are exposed to these risks through their mortgage loan portfolios, investments in securities backed by mortgages on properties in areas prone to extreme weather events, and real estate holdings. For example, rising sea levels may result in higher foreclosure rates due to homes being submerged or uninhabitable; increasing storm frequency such as hurricanes can level coastal communities; flooding from storms, sea-level rise, and changes in precipitation and snow melt threaten floodplain communities; and wildfires that now occur nearly year-round destroy entire communities in western states. Furthermore, since many FHLBank members operate in limited geographic areas, their portfolios can be highly exposed to extreme weather events, resulting in higher credit and liquidity risks. The Enterprises may face similar risk from expanding their lending as other financial institutions offload their exposure to geographies with high climate risk.

Transition risks are the economic and financial risks associated with the transition to a low-carbon economy, including regulatory, technological, market, and consumer shifts. The FHLBanks may be exposed to these risks as the transition disrupts established markets and requires adaptation of business models in order to remain competitive. The same communities that are most vulnerable to physical climate risks also experience increased rates of mortgage default, depreciation in property values, and insurance pullouts. Furthermore, there is potential for losses from regulatory changes such as carbon taxes or shifts in consumer preferences away from certain products or services.

Related to both physical and transition risk, socioeconomic risk refers to financial loss as a result of climate impacts on physical assets, productivity/workability, infrastructure services, and natural capital. These impacts are likely to worsen and compound as climate change progresses, substantially disrupting global markets and financial systems. Socioeconomic climate risk also

disproportionately impacts low- and moderate-income (LMI) communities and communities of color,[1] including the economic burdens of climate impacts on housing.[2]

Climate risk permeates all risks faced by financial institutions, and interacts with other risks and barriers faced by participants in the housing finance system, particularly vulnerable and underserved communities. The FHF should encourage both the Enterprises and the FHLBanks to implement interdivisional working groups to address climate risks to the Entities as well as to the communities they serve, integrating climate risk management into general policies and risk management frameworks.

C. Climate-Induced Disasters Exacerbate Existing Barriers to Sustainable Housing Opportunities

As our previous submissions and publications highlight, climate risk exacerbates existing financial and environmental inequities that underserved communities face – LMI communities, black, indigenous, and people of color (BIOPC) communities, and other financially or socially vulnerable communities.

Due to decades of systemic discrimination, redlining, and underinvestment, these communities disproportionately bear the economic burdens of climate impacts on housing. [3] They are often

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[1] *See* REPORT ON CLIMATE-RELATED FINANCIAL RISK, FIN. STABILITY OVERSIGHT CNCL. (Oct. 2021), https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf#page=24; *see also* Isabelle Anguelovski et al., WHY GREEN "CLIMATE GENTRIFICATION" THREATENS POOR AND VULNERABLE POPULATIONS, PNAS (2019), https://www.pnas.org/doi/10.1073/pnas.1920490117.

[2] *See, e.g.*, Laura A. Bakkensen & Lala Ma, SORTING OVER FLOOD RISK AND IMPLICATIONS FOR POLICY REFORM, J. OF ENVT'L ECON. & MGMT. (July 2020), https://www.frbsf.org/wp-content/uploads/sites/4/Bakkensen_Ma_2020.pdf; Patrick Sisson, *In Many Cities, Climate Change Will Flood Affordable Housing*, BLOOMBERG (Dec. 1, 2020), https://www.bloomberg.com/news/articles/2020-12-01/how-climate-change-is-targeting-affordable-housing; Daniel Cusick, *Past Racist "Redlining" Practices Increased Climate Burden on Minority Neighborhoods*, SCI. AM. (Jan. 21, 2020), https://www.scientificamerican.com/article/past-racist-redlining-practices-increased-climate-burden-on-minority-neighborhoods/; Brad Plumer and Nadja Popovich, *How Decades of Racist Housing Policy Left Neighborhoods Sweltering*, NY TIMES (Aug. 24, 2020), https://www.nytimes.com/interactive/2020/08/24/climate/racism-redlining-cities-global-warming.html; Sarah Kennedy, *The link between racist housing policies of the past and the climate risks of today*, YALE CLIMATE CONNECTION (Mar. 18, 2021), https://yaleclimateconnections.org/2021/03/the-link-between-racist-housing-policies-of-the-past-and-the-climate-risks-of-today/.

[3] [6] *See, e.g.*, Laura A. Bakkensen & Lala Ma, SORTING OVER FLOOD RISK AND IMPLICATIONS FOR POLICY REFORM, J. OF ENVT'L ECON. & MGMT. (July 2020), https://www.frbsf.org/wp-content/uploads/sites/4/Bakkensen_Ma_2020.pdf; Patrick Sisson, *In Many Cities, Climate Change Will Flood Affordable Housing*, BLOOMBERG (Dec. 1, 2020), https://www.bloomberg.com/news/articles/2020-12-01/how-climate-change-is-targeting-affordable-housing; Daniel Cusick, *Past Racist "Redlining" Practices Increased Climate Burden on Minority Neighborhoods*, SCI. AM. (Jan. 21, 2020), https://www.scientificamerican.com/article/past-racist-redlining-practices-increased-climate-burden-on-minority-neighborhoods/; Brad Plumer and Nadja Popovich, *How Decades of Racist Housing Policy Left Neighborhoods Sweltering*, NY TIMES (Aug. 24,

situated in areas more susceptible to natural disasters, have fewer resources to invest in climate-resilient infrastructure or to recover from climate-induced damages, and are excluded from future transition-related solutions and opportunities. Affordable housing is also at increased risk from climate events such as sea level rise, storms, and flooding.[4] These events further damage the affordable housing supply, leading to slower repairs and even the inability to rebuild new or build new homes where funding is scarce and rehabilitation and resiliency costs are high.[5] Some key aspects of these disparities include:

Decreased Property Values – The occurrence of natural disasters, such as floods and wildfires, aggressively discount the home prices in affected areas. For many LMI families, their home is their primary source of wealth. Depreciating property values can deepen economic inequalities as these families lose what is often their only asset. The combination of historical disinvestment and climate vulnerability can deepen the inequality experienced by these communities.

Climate-Induced Migration – As some areas become uninhabitable due to physical risk people will be forced to migrate, resulting in influxes of people moving to safer areas. This can lead to an increase in housing demand in those areas, driving up housing prices. Underserved families who don't have the resources to relocate or who do so under duress may face challenges in securing housing in new locations, particularly if there is competition for limited resources and housing stock. Additionally, as cities invest in climate resilience, neighborhoods can become more desirable and undergo gentrification, which often displaces long-term, lower-income residents. Furthermore, transition risks can result in the loss of jobs and income for certain populations due to a shift in policy (for example, moving toward a lower-carbon economy), technological innovation, and other factors, putting underserved communities at higher risk.

Decreased Stock & Accessibility of Affordable Housing – Affordable housing is at increased risk from climate events such as sea level rise, storms, and flooding.[6] These events further damage

2020), https://www.nytimes.com/interactive/2020/08/24/climate/racism-redlining-cities-global-warming.html; Sarah Kennedy, *The link between racist housing policies of the past and the climate risks of today*, YALE CLIMATE CONNECTION (Mar. 18, 2021), https://yaleclimateconnections.org/2021/03/the-link-between-racist-housing-policies-of-the-past-and-the-climate-risks-of-today/.

[4] *See, e.g.*, Maya K Buchanan et al., SEA LEVEL RISE AND COASTAL FLOODING THREATEN AFFORDABLE HOUSING, ENVT'L RES. LETT. (2020), https://iopscience.iop.org/article/10.1088/1748-9326/abb266/pdf; Guillermo Ortiz et al., A PERFECT STORM: EXTREME WEATHER AS AN AFFORDABLE HOUSING CRISIS MULTIPLIER, CTR. FOR AM. PROGRESS (2019), https://www.americanprogress.org/article/a-perfect-storm-2/.

[5] *See, e.g.*, UNDERSTANDING CLIMATE RISK: WHAT WE LEARNED ABOUT THE IMPACT OF CLIMATE RISK ON AFFORDABLE HOUSING DEVELOPMENT, FED. RES. BANK OF SAN FRAN. (Mar. 2022), https://www.frbsf.org/our-district/about/sf-fed-blog/understanding-climate-risk-impact-on-affordable-housing-development/; Daniel McCue, *Headlines from the 2019 State of the Nation's Housing Report*, JOINT CTR. FOR HOUSING STUD. OF HARVARD U. (Aug. 7, 2019), https://www.jchs.harvard.edu/blog/headlines-from-the-2019-state-of-the-nations-housing-report.

[6] *See, e.g.*, Maya K Buchanan et al., SEA LEVEL RISE AND COASTAL FLOODING THREATEN AFFORDABLE HOUSING, ENVT'L RES. LETT. (2020), https://iopscience.iop.org/article/10.1088/1748-9326/abb266/pdf; Guillermo Ortiz et al., A PERFECT STORM: EXTREME WEATHER AS AN AFFORDABLE HOUSING CRISIS MULTIPLIER, CTR. FOR AM. PROGRESS (2019), https://www.americanprogress.org/article/a-perfect-storm-2/.

the affordable housing supply, leading to slower repairs and even the inability to rebuild new or build new homes where funding is scarce, and rehabilitation and resiliency costs are high.[7] Furthermore, accessibility of affordable housing is particularly critical for areas exposed to climate disasters; LMI communities are often disproportionately at risk from these events and their after effects.

Widened Homeownership Gaps – More homeowners default on their mortgage payments and lose their houses after disasters like floods. Moreover, the disaster-induced homeownership declines are more pronounced for households from minority neighborhoods than individuals from predominantly white neighborhoods and for individuals with low credit scores than those with high credit scores.

Inaccessible Climate-Resilient Housing – Building climate-resilient homes or making such home improvements is often more expensive due to the need for specialized materials and designs. Due to price barriers, underserved communities are less likely to benefit from technological innovations that will improve the communities' resilience to heat and natural disease. To prevent only higher-income communities from benefitting from these new technologies, the Entities should look to incentivize resiliency in underserved communities. Both the Inflation Reduction Act and Justice40 offer funding opportunities in to incentivize investment in underserved communities that are overburdened by climate or environmental risk.

Inequality in Access to Adaptation Funding – Government funding for climate adaptation and resilience often goes to wealthier areas with more political influence, leaving underserved communities with fewer resources to adapt to and mitigate the effects of climate change, deepening inequalities.

Limited Access to Sustainable Financing – Sustainable financing options for energy-efficient and resilient housing are often less accessible to low-income households, who may not have the credit scores or upfront capital needed to qualify for green mortgages or retrofitting loans.[8]

Insurance Unavailability and Unaffordability – The insurance gag deepens the disparities in housing and wealth, as demonstrated by two 2023 Ceres reports. The Inclusive Insurance Report

[7] *See, e.g.*, UNDERSTANDING CLIMATE RISK: WHAT WE LEARNED ABOUT THE IMPACT OF CLIMATE RISK ON AFFORDABLE HOUSING DEVELOPMENT, FED. RES. BANK OF SAN FRAN. (Mar. 2022), https://www.frbsf.org/our-district/about/sf-fed-blog/understanding-climate-risk-impact-on-affordable-housing-development/; Daniel McCue, *Headlines from the 2019 State of the Nation's Housing Report*, JOINT CTR. FOR HOUSING STUD. OF HARVARD U. (Aug. 7, 2019), https://www.jchs.harvard.edu/blog/headlines-from-the-2019-state-of-the-nations-housing-report.

[8] *See, e.g.*, *Low-Income Community Energy Solutions*, U.S. DEP'T OF ENERGY (2023), https://www.energy.gov/scep/slsc/low-income-community-energy-solutions; Ariel Drehobl, *Low-Income Households Pay More for Energy, But Efficiency Can Help*, U.S. NEWS (Sept. 30, 2023), https://www.usnews.com/news/healthiest-communities/articles/2020-09-30/poor-households-pay-more-for-energy-but-efficiency-can-help; LOW-INCOME ENERGY EFFICIENCY A PATHWAY TO CLEAN, AFFORDABLE ENERGY FOR ALL, ENVT'L DEF. FUND (Feb. 2018), https://www.edf.org/sites/default/files/documents/liee_national_summary.pdf.

found that the negative economic impacts induced by disasters disproportionately harm LMI households and people of color, who tend to have lower insurance coverage and face higher barriers to accessing sufficient funds for recovery from all of these sources. As a result, a natural disaster can cause long-term financial harm to these households with little financial safety net available to them.

The Addressing Financial Recovery Gaps for South Carolina Households Report reveals several common challenges across all programs and sources for economic recovery, including: (1) Many sources of funds for recovery are insufficient or inaccessible, especially for low-income and communities of color; (2) Disaster insurance can be unaffordable for LMI households; (3) There are often substantial delays in getting any recovery funds; and (4) The needs of renters and rural areas are not well met.

II. RESPONSE TO REQUEST FOR COMMENT

A. General

Question 1. The rule currently does not define equity. FHFA seeks comments on whether the rule should define equity. If the rule should define equity, what would be an appropriate definition?

Yes, the rule should define equity for two reasons, specifically in the context of fair housing finance.

First, the word "equity" has a well-established meaning in housing finance as the "difference between how much your home is worth and how much you owe on your mortgage." But this is not the definition intended for fair lending, fair housing, and equitable housing finance. A clear definition and/or strong illustrative examples can help avoid confusion.

Second, equity is challenging to define and can mean different things in different scenarios and to different people. Therefore, it is helpful for the public, the Entities, and the FHFA, especially during oversight, to elaborate on what "equity" means in relationship to the proposed rule. This can prevent misunderstanding or misinterpretation of the word intentionally or unintentionally.

Footnote seven in the NPR provides good examples of "equity for homebuyers, homeowners, and tenants in the housing market." Below is a sample of how "equity" can be defined in the rule for your consideration.

> *"Equity" means the quality of being fair and impartial and is about making sure people get access to the same opportunities.*[9] *"Equity for homebuyers, homeowners, and tenants in the housing market" includes providing ongoing assistance to the secondary market for residential mortgages, including mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned*

[9] The current definition of "equity," example for demonstration only, is from Dictionary. com and LeaDMN, an NGO. The Oxford Dictionary defines "equity" in the context as "a situation in which everyone is treated equally," and a synonym of "fairness."

on other activities. 12 U.S.C. §§ 1716(3) and (4) (Fannie Mae charter purposes); 12 U.S.C. §§ 1451 note (b)(3) and (4) (Freddie Mac charter purposes). They also include Enterprise affordable housing Goals, see 12 U.S.C. §§ 4561(a), 4562, and 4563; 12 CFR part 1282, subpart B, and Enterprise Duty to Serve affordable housing needs of certain underserved markets, see 12 U.S.C. § 4565; 12 CFR part 1282, subpart C. In addition, the Enterprises are required to report annually to Congress on, among other things, assessments of their underwriting standards and business practices that affect their purchases of mortgages for low- and moderate-income families, and revisions to their standards and practices that promote affordable housing or fair lending. 12 U.S.C. §§ 1723a(n)(2)(G) (Fannie Mae charter), 1456(f)(2)(G) (Freddie Mac charter).

Relatedly, we applaud the inclusion of "other climate-related impact events" in the definition of "sustainable housing opportunity." The inclusion of such examples helps highlight specific areas for action. The FHFA should consider giving examples of specific types of equity on its website, including climate equity. For example, the EPA defines climate equity as below and provides additional related information on its website:

> *Climate equity is the goal of recognizing and addressing the unequal burdens made worse by climate change, while ensuring that all people share the benefits of climate protection efforts. Achieving equity means that all people—regardless of their race, color, gender, age, sexuality, national origin, ability, or income—live in safe, healthy, fair communities.*

B. Compliance and Enforcement

Question 2. How can FHFA improve fair lending compliance oversight of the regulated entities?

The FHFA plays a critical role in supervising the Entities, including their actions in addressing fair lending-related climate challenges. The FHFA could employ several strategies, including:

- Establishing Clear Guidelines and Expectations: The FHFA should establish clear guidelines for the Entities regarding climate-related risk assessment and management. These guidelines should include explicit expectations regarding how climate risks should be incorporated into business strategies, risk management, and operational planning.

- Requiring Regular Reporting: The FHFA can mandate regular reporting on climate-related activities and risks from the Entities, including both the Enterprises and the FHLBanks. These reports should detail exposure to climate-related risks, actions taken to mitigate those risks, and plans for managing climate risks in the future.

- Integration into Examination Process: The FHFA can ask the Entities to incorporate climate-related risk assessment into its regular examination process. This would involve assessing how effectively these institutions manage climate-related risks as part of their broader risk management frameworks.

- Encouraging Innovation and Best Practices: The FHFA can incentivize the Entities to innovate and adopt best practices in climate risk management. This could involve supporting the development of new financial products or services that facilitate climate risk mitigation or adaptation.

- Supporting Research and Data Collection: Encourage and support research and data collection on the impact of climate change on the housing market and the financial systems. Use this data to inform oversight activities and policy development.

- Public Disclosure and Transparency: The FHFA can require the Entities to disclose their climate-related risks and activities publicly. This would improve transparency and accountability and could encourage better climate risk management practices.

- Training and Capacity Building: The FHFA can require the Entities to develop and provide training programs for the staff, management, and leadership on climate risk management. This would help ensure these institutions have the knowledge and skills to effectively manage climate-related risks.

- Review and Update Policies: The FHFA can regularly review and update its policies and guidelines regarding climate-related activities to ensure that they remain relevant and effective in the face of evolving climate risks. This NRP is a great example of such practice.

As the country's biggest home mortgage buyers and guarantors, the Enterprises significantly influence market behavior by the lenders and the borrowers. The FHFA and the Enterprises should incentivize positive behavior changes by lenders and borrowers to fulfill their statutory purpose of ensuring an affordable and sustainable supply of mortgage funds and protecting the housing stock through extraordinary periods of turmoil in the broader financial system.

This could include incentives to incorporate mitigation and resiliency efforts into mortgage underwriting. The Enterprises can provide incentives such lower interest rates, programs that provide low- or no-interest loans to borrowers, preferential loan terms, public-private partnerships with government funding matched by private investments, tax incentives, and alternative credit evaluation methods for those whose financial history was affected by a natural disaster. These resiliency measures could include installation of sump pumps and storm windows or energy-efficiency upgrades, that would reduce the risk of default and improve the overall resilience of the housing stock.

The FHFA should publish guidance on best practices for incorporating climate risks into underwriting and portfolio management practices, produce educational resources and other tools to help monitor and manage climate risks over time, and update building codes and sustainability standards.

The Enterprises should also leverage their access to data and provide analysis and recommendations that can reduce barriers in assessing and addressing climate-induced housing inequity. For example:

- Disaster-related data collection & sharing: Include plans for ongoing data collection and sharing regarding the impact of natural disasters on housing markets, especially in underserved areas. Use this data to continuously update and refine programs.

- Risk assessment and mapping: Include comprehensive risk assessments that identify communities most vulnerable to natural disasters. Utilize advanced mapping and data analysis to pinpoint areas that might be disproportionately impacted.

- Targeted study on strategies to address the potential risk: Include actions to address climate-related financial risks could disparately impact financially vulnerable communities, exacerbating existing inequities by raising insurance or credit costs and encouraging disinvestment or climate redlining (also known as bluelining or climate gentrification).[10]

By addressing these elements, the Enterprises can play a crucial role in providing equitable housing finance support to underserved communities to prepare for and respond to the challenges posed by natural disasters

C. Equitable Housing Finance Plans and Updates

Question 8. Should FHFA issue an evaluation of the Enterprises? Should the rule include required evaluation metrics for the progress reports?

The FHFA should issue an evaluation of the Enterprises on their plan/update and progress report. The evaluation metrics for the progress reports should be unambiguous and publicly available. Climate-related elements to consider explicitly mentioning and evaluating include:

- Emphasizing the Connection Between Climate Risk and Housing Inequality: Educate stakeholders on how climate change disproportionately affects marginalized communities. Highlight that sustainable housing finance is not only about affordability, but also about ensuring that homes are resilient to climate-related physical and transition risks.

- Promoting Climate-Resilient Housing Standards: Advocate for including climate-resilient construction standards and retrofitting in the Enterprises' housing finance plans. This can

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[10] *See* REPORT ON CLIMATE-RELATED FINANCIAL RISK, FIN. STABILITY OVERSIGHT CNCL. (Oct. 2021), https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf#page=24; Joshua Thompson et al., CLIMATE GENTRIFICATION: VALUING PERCEIVED CLIMATE RISKS IN PROPERTY PRICES, ANNALS OF THE AM. ASSOC. OF GEOGRAPHERS (Feb. 2023), https://www.researchgate.net/publication/368696957_Climate_Gentrification_Valuing_Perceived_Climate_Risks_in_Property_Prices; Lindsey Jacobson, *Banks consider climate risk for home loans, a process called 'underwaterwriting' or 'blue-lining,'* CNBC (Sept. 20, 2021), https://www.cnbc.com/2021/09/20/blue-lining-and-underwaterwriting-banks-consider-climate-change-risk.html; Aparna Nathan, *Climate is the Newest Gentrifying Force, and its Effects are Already Re-Shaping Cities*, SCI. IN THE NEWS (July 15, 2019), https://sitn.hms.harvard.edu/flash/2019/climate-newest-gentrifying-force-effects-already-re-shaping-cities/; Allie Reilly, *What Climate Gentrification Means for Climate Adaptation Planning*, WSP (Sept. 16, 2022), https://www.wsp.com/en-us/insights/2022-climate-gentrification-is-reshaping-america.

include incentives for properties that adopt green building codes, use energy-efficient materials, or have flood-resistant features.

- Highlighting Green Financing Options: Encourage the Enterprises to adopt and promote green financing options, including green mortgages or favorable financing terms for energy-efficient properties. Explain how these financing options can make housing both more sustainable and more affordable in the long term by reducing energy costs.

- Supporting Location-Efficient Mortgages (LEMs): Promote the adoption of LEMs, which account for the savings from reduced transportation costs in efficient and well-located areas. This encourages housing in areas where carbon footprints and pollution can be minimized.

- Incentivizing Investment in Climate-Vulnerable Areas: Create incentives for the Enterprises to allocate a portion of their investment toward communities that are most vulnerable to climate risk. This could include financing for climate adaptation measures, such as seawalls, green spaces, or improved stormwater management systems.

- Including Climate Risk Assessment: Promote the integration of climate risk assessments into the Enterprises' underwriting processes. This can help ensure investments are directed towards properties that are either low risk or have undergone resiliency retrofits.

- Requiring Data Transparency and Reporting: Ensure the Enterprises are transparent in reporting on the climate resilience of their portfolios and the accessibility of their products to climate-vulnerable populations.

- Facilitating Climate-Related Education and Technical Assistance: Encourage Enterprises to offer education and technical assistance to borrowers, especially in low-income communities, regarding the impacts of climate change and the benefits of energy efficiency and climate resilience.

- Addressing Insurance Accessibility: As climate hazards increase risk to properties, insurance premiums may rise or become unavailable in certain areas. Advocate for the Enterprises to develop partnerships or programs that ensure fair access to insurance, possibly through government-backed insurance pools or public-private partnerships.

- Collaborating with Stakeholders: Encourage the Enterprises to collaborate with environmental experts, community organizations, and government agencies. This can ensure that climate considerations are adequately addressed and that marginalized communities have a say in developing housing finance policies.

Question 9. Should the rule include required or optional priority goals? If so, who should determine which priority goals are applicable?

The final rule should require high-level priority goals, and specify that the FHFA will include fair lending and fair housing priority goals in its annual housing goals, as required under 12 U.S.C. §

4561(a). This will allow the goals to be timely and relevant to the most challenging aspects of the year.

Ceres encourages the FHFA to include addressing equitable housing finance-related disaster readiness, resilience, and recovery as a required priority goal. *See supra* Sections I.A and I.B.

Question 11. Should the focus of an Equitable Housing Finance Plan be limited to one underserved community at a time?

Limiting the focus of an Equitable Housing Finance Plan (EHFP) to one underserved community at a time may help address severe disparities for a specific population during the three-year period more pointedly, and help better allocate resources and increase effectiveness. However, it may unnecessarily silo the Enterprises' work in addressing the underlying causes of disparities faced both by the targeted community and the same underlying causes that impact other underserved communities.

Many challenges underserved communities face are not completely distinct, often overlapping across populations and geographies. Addressing the root economic and financial cause does not necessarily have to be community-specific. The interactions between barriers faced by underserved communities or the compounding effects of multiple concurrent or consecutive barriers may also make it difficult to adequately remedy these disparities when the underlying causes are so intertwined. As noted by the NPR, disaggregated data is critical to identifying and addressing disparities to underserved communities. Ensuring the Enterprises use disaggregated data will allow not only drilling down on specific barriers to specific populations, but will give greater insight into the larger picture of housing inequity and how these barriers may interact.

Likewise, if an EHFP addresses only one underserved community, the three-year timeframe of an EHFPs means that the Enterprises' equitable housing finance goals and action plans will primarily address only the underserved community specified in the EHFP.

Additionally, Ceres encourages the FHFA to ensure the Enterprises continue to address equitable housing finance-related disaster readiness, resilience, and recovery in their EHFPs. Both Enterprises currently include the impacts of climate on housing equity in their EHFPs, and have targets and goals related to climate resiliency and mitigation projects. As discussed above, climate impacts financially vulnerable and underserved communities in unique ways, including in the housing market. These risk and impacts are also unique to different communities and geographies, and we encourage the Enterprises to continue and broaden their research on these impacts on different underserved communities in future EHFP iterations.

Question 12. Does the rule provide for sufficient public engagement?

The final rule should encourage the Enterprises to increase meaningful community engagement and relationship-building with underserved communities, particularly those communities that are the focus of the particular year's EHFP. This process should involve focused engagement to ensure communities have all of the relevant facts. This would help fulfill the Enterprises purpose of

helping to help ensure a reliable and affordable supply of mortgage funds throughout the country, and ensure the solutions offered will effectively work to that end.

For example, a $1.1 billion flood wall proposal in Charleston, South Carolina to protect vulnerable coastal land in higher income areas is projected to reduce the risk of damage from storm surge by more than 10 times its price tag. However, it may leave the surrounding LMI communities more vulnerable to flooding than they are now. The options for the impacted communities under the proposal are unclear, but may include raising houses above flood-level, floodproofing buildings, or offers to buy out affected properties. But these solutions were not formed with input from the community and would likely result in further displacement as "the places [where flooding is]n't as bad are a lot less affordable." Residents cite as the source of this disconnect a lack of community engagement in the early stages of the proposal. And when community engagement did occur, it was "offered ... through methods that many in the [impacted communities] were unable to access [during the pandemic], like virtual webinars."

Although not a housing finance issue, this example shows not only the importance of working with the impacted community on climate resiliency and natural disaster preparedness projects, but the potential for such projects to result in redlining that adversely impacts the very communities EHFPs are intended to benefit.

The NPR would require the Enterprises to "consult with stakeholders, including members of underserved communities and housing market participants, in the development and implementation of their plans and updates," but is silent on what that participation should actually look like. In particular, the NPR fails to ensure that communities have an identifiable mechanism by which to give input, and to ensure activities benefit without adversely impacting the targeted community or any other vulnerable communities. The final rule should therefore include more explicit parameters related to community engagement and relationship building, including in the context of disaster preparedness and climate resiliency.

The final rule should also require the Enterprises to publicly identify the organizations and communities with which they are engaging. This would help ensure that the Enterprises are engaging with organizations that best represent the community, and not cherry-picking organizations that would ask for less than what that community needs and what other organizations would request. Likewise, the Enterprises should describe their outreach to and engagements with organizations, including where and how these efforts were made, how the community responded, and any changes made in response to community requests.

The Enterprises should therefore design policies and programs to engage the public and provide related education and services, including for climate-related housing issues. For example:

- Marketing and Public Education for the EHFP: Include online and in-person programs, with a focus on the interconnection between housing and natural disaster, to promote and explain the current EHFP, to provide opportunities for the underserved communities to

provide feedback and receive meaningful responses, and to consult the focused communities in the plan updates and next plan preparation.

- Community Partnership for Disaster Preparedness: Include supporting community-based initiatives that help residents prepare for natural disasters and access resources. The Enterprises can partner with local governments, non-profits, and community organizations to promote disaster preparedness, especially in the focused communities. The Enterprises to partner with community organizations and local governments and take advantage of grant programs such as the HUD Community Development Block Grant or the Inflation Reduction Act.

- Education Initiatives: Include educational programs that inform borrowers in disaster-prone areas about the risks involved, available insurance options, emergency preparedness, and resources available in case of a disaster.

- Insurance Support and Counseling: Include strategies for helping homeowners to secure affordable insurance coverage that is adequate for the risks posed by natural disasters. Provide educational resources and counseling to help homeowners understand their insurance options and the importance of coverage in disaster-prone areas.

Question 13. Developing or supporting special purpose credit programs is one type of meaningful action that an Enterprise could take under an Equitable Housing Finance Plan, but the rule would not establish any special purpose credit programs in the regulation itself. Should FHFA adopt any special purpose credit programs under 12 CFR 1002.8(a)(1)?

We encourage the FHFA to consider adopting the following type of special purpose credit programs to address climate-related barriers to equitable housing finance:

- Resilient housing initiatives: Provide credit for supporting the construction and rehabilitation of housing that is resilient to natural disasters. This might include financing incentives for properties that incorporate storm-resistant features or are located outside of flood-prone areas.

- Disaster relief funding programs: Provide dedicated credit that can be quickly deployed after a natural disaster. These programs should provide relief to homeowners and renters affected by the disaster and should be designed to address the unique challenges faced by low- and moderate-income households.

- Mortgage forbearance program: Provide temporary credit to homeowners in disaster-impacted areas to pause or reduce their mortgage payments without facing penalties or negative credit reporting.

- Displaced household support program: Provide credit to help provide housing options and support to permanently displaced populations due to repeated natural disasters.

- Insurance assistance program: Provide credit to purchase disaster homeowner insurance for underserved communities in disaster-prone areas.

D. Federal Home Loan Banks

Question 15. Should the FHLBanks be required to comply with a framework similar to that of the Equitable Housing Finance Plans by regulation?

The FHLBanks should be required to comply with a framework similar to that of the EHFPs. The process of developing and implementing an EHFP can help the FHLBanks more effectively demonstrate the long-term benefits and align lending with fair lending and equitable housing finance objectives by:

- Helping ensure vulnerable populations have access to affordable housing and the necessary support for rebuilding and recovery after a disaster.
- Incentivizing the construction and retrofitting of homes to be more disaster resilient.
- Mitigating the financial risks associated with natural disasters for underserved communities.
- Ensuring that the need for additional funding and resources for post-disaster recovery are met and that communities have the resources they need to recover and thrive.
- Addressing the historical inequities and promoting more fair and inclusive housing opportunities, especially in disaster-prone areas.
- Contributing to the long-term economic stability of underserved communities and building trust among community members and stakeholders.

Question 16. What elements of the framework should be included, modified, or excluded if FHFA were to apply such a framework to the FHLBanks by regulation?

We suggest that the FHFA considers including all elements for the framework to the FHLBanks by regulation.

Question 17. Are there other ways to incorporate principles of equitable housing for the FHLBanks that would meet the same objective?

We support the FHFA in expanding the application of the proposed subpart D (§ 1293.31) to the FHLBanks. It is crucial for the FHFA to be able to incorporate data analytics to continuously monitor housing market trends and needs, which can also be disaggregated by geography, race, and income levels to identify disparities and allow for agile and targeted responses.

Vulnerable communities are also more likely to live in areas disproportionately impacted by climate change, and "are less likely to have the resources to protect and guard against" the impacts

of climate events, creating an additional layer of financial burden. As climate-related disasters worsen, FHLBanks may be an essential source of support for vulnerable communities.

First, they can provide grants and loans to communities affected by climate-related disasters. The FHLBanks' Affordable Housing Program (AHP) could provide grants and low-interest loans to help finance affordable housing projects in communities that have been affected by natural disasters or other environmental events. The use of the AHP should also be expanded to finance the construction, purchase, or rehabilitation of housing in less exposed areas to use as affordable housing. Additionally, the FHLBanks' Community Investment Program (CIP) provides grants and loans for community development projects that help improve infrastructure and services in economically distressed communities, and could be used to implement climate resiliency retrofits.

The FHLBanks should consider products and policies that support improvements for individual homeowners or developers (e.g. elevating homes, improving insulation, renewable energy, and energy efficiency retrofits). Likewise, FHLBank members should work *with* communities in these vulnerable areas, both in initiating a project and throughout its duration, to ensure genuine input from and benefit to the impacted community. Engaging with local stakeholders can help ensure that proposed investments are appropriate for the local context and will provide adequate resources for successful implementation. Furthermore, consulting with a range of stakeholders beforehand can ensure that proposed investments are sustainable and do not cause further disruption or displacement in vulnerable communities where existing infrastructure may be inadequate or ill-suited for new developments.

Second, the FHFA should establish an equity redistribution and investment fund to provide financial resources to homeowners willing to relocate away from areas that are highly exposed to climate risks. Managed retreat has several benefits for areas affected by climate change. By relocating people, businesses, and infrastructure out of harm's way, it can reduce the economic losses associated with climate disasters. It can also protect ecosystems by restoring wetlands and other natural areas that are often damaged by development while helping reduce long-term costs associated with rebuilding infrastructure that is destroyed by extreme weather events.

However, FHLBanks must work with the impacted communities, and provide funding for voluntary relocation programs and buyouts for homeowners in at-risk areas. It should also provide grants for communities to develop comprehensive plans for managed retreat strategies and offer tax credits or loan forgiveness programs to encourage homeowners to move out of vulnerable areas. Moreover, the FHLBank System should incentivize its banks and their members to invest in infrastructure projects that help reduce climate-related risks, and provide access to the resources necessary to preserve and enhance the resilience of vulnerable communities. These resources, as well as their costs and benefits, must be fairly distributed to ensure that LMI and BIPOC communities do not disproportionately bear the burdens, including the ongoing financial aftermath of these events.

Third, the FHLBank System should evaluate whether any policies are creating barriers to obtaining financing for climate risk mitigation or improvements. This risk should be spread across portfolios rather than trying to price it into specific loans to avoid disproportionate burdens on vulnerable communities. Likewise, the FHFA should prohibit the relaxation of consumer protections for climate risk mitigation products and proactively prevent abusive products and practices. Instead, consumer protections should be enhanced and policies adopted that limit risk to the FHLBanks while protecting homeowners from lenders who use abusive tactics and leave families in precarious situations that put them at risk of losing their homes. Similarly, inflation of property valuations based on estimated cost savings from energy efficiency improvements should be prevented.

Finally, FHFA should consider the policy implications of climate risk assessments and regulations on vulnerable communities. The FHFA must understand who is adversely impacted and who benefits from proposed policy changes, especially regarding LMI communities, BIPOC communities, indigenous communities, and other historically disadvantaged groups and regions. Likewise, the FHFA must ensure that the FHLBanks are transparent in their risk management processes so that communities can understand the impacts of climate-related financial risks on their financial services.

To this end, the agency should provide recommendations or guidance to the FHLBanks that focuses on assessing the impact to vulnerable and underserved communities; resilience and adaptation standards; race and income disparities (bluelining, affordable housing shortages); renter impact (multi-family markets), steps to limit harms to housing affordability and inequitable losses in wealth, and climate-related risk disclosure. This could include:

- Affordable Housing Programs: The FHLBanks can expand and adapt Affordable Housing Programs (AHP) to prioritize areas impacted by natural disasters. This may include increasing subsidies or adjusting eligibility criteria to ensure the needs of affected communities are addressed.

- Disaster Relief Programs: The FHLBanks can create specialized disaster relief programs that provide funds to their members for lending to affected communities. These funds can help individuals with rebuilding costs, short-term liquidity needs, or be used to create affordable housing alternatives in less disaster-prone areas.

  Community Development Loans and Grants: Increase the allocation of community development loans and grants for projects that bolster the infrastructure and resilience of disaster-prone areas. This could include investments in flood defenses, hurricane-resistant construction materials, and firebreaks in wildfire-prone areas.

- Community Reinvestment: The FHLBanks can encourage member institutions to reinvest in communities affected by natural disasters as part of their community reinvestment obligations. This could be achieved by providing incentives or additional credit under Community Reinvestment Act assessments.

- Flexible Underwriting Criteria: The FHLBanks can encourage member institutions to adopt more flexible underwriting criteria for disaster-impacted communities. This could include relaxed credit score requirements, lower down payments, or alternative methods of assessing creditworthiness.

- Data Collection and Analysis: The FHLBanks can collect and analyze data on the impact of natural disasters on mortgage lending in underserved communities. This data can help understand patterns, identify areas of need, and develop targeted lending programs.

- Support for Insurance Initiatives: The FHLBanks can facilitate partnerships with insurance companies to help ensure that underserved communities have access to affordable insurance options, which can be crucial in securing mortgage loans and protecting assets during natural disasters.

- Education and Technical Assistance: The FHLBanks can provide education and technical assistance to member institutions on best practices for lending in disaster-affected areas. This can help ensure that lenders are informed about these communities' unique challenges and can offer appropriate financial products.

- Partnerships with Non-Profits and Government Agencies: The FHLBanks can form partnerships with non-profit organizations and government agencies with disaster response and recovery expertise. Through these collaborations, they can create joint programs and share resources to help communities more effectively.

- Crisis Response Teams: The FHLBanks can establish dedicated teams that can respond swiftly in the aftermath of a disaster to work with member institutions in impacted areas, helping to assess needs and implement relief measures quickly.

The FHLBanks play a significant role in supporting housing finance and community development, particularly for underserved, climate-vulnerable communities, and adopting these strategies can significantly improve fair lending practices in the context of natural disasters.

III. CONCLUSION

We thank the FHFA for its work promoting fair lending, fair housing, and equitable housing finance, including through consideration of climate-related financial risk. We would be pleased to discuss any questions you may have on our feedback. Please contact our Manager for Banking Financial Regulation, Kelsey Condon (kcondon@ceres.org), at your convenience.

Sincerely,

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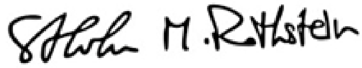

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