April 19, 2021

By Electronic Delivery Through the FHFA Website

Hon. Mark A. Calabria, PhD

Director

Federal Housing Finance Agency

400 Seventh St., SW 10th floor

Washington, DC 20219

Re: Climate and Natural Disaster Risk Management

Dear Director Calabria:

We appreciate the opportunity to respond to the questions raised in the Federal Housing Finance Agency's (FHFA) Request for Input on Climate and Natural Disaster Risk Management at the Regulated Entities (RFI). We commend your leadership in addressing the increasingly apparent impact of climate change and natural disasters on safe and sound housing finance systems.[1] As five organizations with established track records in climate change, land policy, housing finance policy, financial institution regulation and related data analysis, we are well positioned collectively or individually to assist you in this effort.

Despite the severity of the problem, public awareness is still low. Climate risks are not adequately priced into the markets for housing and housing finance and are not accounted for in housing policy and financial regulations. The Enterprises and the FHLBanks have yet to formally define climate risks in their underwriting or assess climate impacts on their portfolios. The real estate market responds to investors' sentiments, which remain largely unaffected despite the increased occurrence of floods, fires, storms, and other extreme weather events. While a number of wealthy and savvy investors and financial institutions like hedge funds have long been running scenario analyses and can already assess physical risks at a granular level, other stakeholders such as government, communities, as well as most individual homebuyers, renters, and taxpayers are not ready or able to face the climate threat. The Enterprises, for example, have been taking outsized risks by guaranteeing mispriced mortgages on properties that are prone to inundation. The information asymmetry of climate risks is both inefficient and unjust: without accurate assessment of risks, consumers and regulators cannot make well-informed, evidence-based decisions; those without access to data are left in the dark and are at risk of both natural disaster threats and human exploitation. Minorities, indigenous communities, and people living in historically disadvantaged areas are particularly vulnerable.

Our current reality requires the federal government to lead now, and we share the FHFA's sense of urgency and duty to call for specific actions to address climate issues, which is manifested by the broad scope of this RFI and the specificity of its inquiries. On the other hand, given the complexity and highly

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[1] According to NOAA, The U.S. has sustained 291 weather and climate disasters since 1980, the total cost of these 291 events exceeds $1.900 trillion. The year 2020 set the new annual record of 22 events and is the sixth consecutive year in which 10 or more billion-dollar weather and climate disaster events were recorded.

uncertain nature of climate risks, accompanied by a general lack of property-level climate-risk data, it may be premature to consider implementing specific policy tools before identifying the right problem. We suggest that FHFA begin with first principles, specifically, to reexamine FHFA's, the Enterprises and the FHLBanks goals, tactics, and strategy in anticipating the upcoming climate-induced financial and social crisis, and to actively engage with the public and stakeholders in this process. We recommend the following set of first principles:

1. Climate change is happening, and we must act now. Climate-related risks manifested in the form of increased frequency and severity of extreme weather and natural disasters have caused enormous economic loss and have had devastating impacts on people and places. The current trend will continue to exacerbate these impacts and we must work hard to anticipate, plan, adapt and mitigate the risks.

2. Access to climate-resilient housing is a human right, a legal right, and a civil right. We need to put social equity and climate justice at the center of the policy discussion and decisions. This includes racial, economic and spatial inequity. The agency should understand who benefits and who losses from FHFA policy, especially the impact on minorities, indigenous communities, and historically disadvantaged groups and regions.

3. Decision making must be data-driven. High-quality data is a prerequisite for any accurate analysis, projection, and decision. This includes not only quantitative statistics but also qualitative data, such as case studies, interviews and lessons learned that capture the meaning and context of information.

4. Make data free, transparent, and accessible. Government, Enterprise and FHLBank-produced data are public goods and they create maximized economic benefits when they are open. Equal access to high-quality climate-risk data helps level the playing field for the average consumer and local communities to make better decisions. Determine the specifications for disclosures of loan-level mortgage data (e.g. geography, demographics, underwriting) needed to align with climate-risk data to ensure that the information needed to accomplish climate policy goals is available. Researchers can provide valuable feedback to help maintain the dataset's quality and improve government's data management practices.

5. Adopt an open, transparent, and pragmatic decision-making process while balancing these considerations with time constraints. Avoid silos or a top-down approach. Engage with stakeholders and other government agencies early on, maximize information flows, and share insights in a timely manner to increase the effectiveness of processes without needing to slow down.

6. Learn from the locals. Successful policy design must consider different geographical contexts, and successful implementation cannot happen without local support. Constructing an effective property-level climate risk database relies on the knowledge of local governments. More broadly, local communities are at the frontline facing climate impacts, and some have emerged from previous calamities with rich experiences in adaptation, mitigation, and community recovery. The richness of local experience can better equip state and federal regulators to establish protocols and close the loopholes of unfair market exploitation.

7. Seek common ground while reserving differences. Political divides among people, competing interests, and priorities among stakeholders, and competing needs of different geographies can all pull the efforts apart. Too much focus on the disagreements, competitions, and conflicts results in inaction and mistrust. We need to constantly remind ourselves that climate change affects everyone, and a good outcome will benefit all if we make a concerted effort starting from the common ground.

8. Fully understand the problem first before moving to solutions. Avoid jumping to quick conclusions or adopting specific policies that later turn out to be more problematic or result in missed opportunities. Act quickly but also reflect, learn, and plan at the same time to ensure our assumptions remain valid and evolve with the changing circumstances and increasing knowledge of climate science.

Proposed Next Steps

We suggest the FHFA to invite a wide range of stakeholders to:

1. Review and provide feedback on these first principles;
2. Promptly develop maps of the systems that are prohibiting the FHFA, the Enterprises and the FHLBanks from adequately addressing climate change; and
3. Develop a strategic plan to begin making changes by year-end.

Sincerely,

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Signatories:

- *Lincoln Institute of Land Policy*. The [Lincoln Institute of Land Policy](#) researches and recommends groundbreaking approaches to land as a solution to economic, social, and environmental challenges since 1946. With partners, our work on [Low-Carbon, Climate-Resilient Communities and Regions](#) identifies and shares best practices for resilience through networks and communities of practice, courses and workshops, research, and publications. Recently, we established the [Center for Geospatial Solutions](#), which uses geographic information systems (GIS), remote sensing, artificial intelligence and other technologies to provide people and organizations with actionable insights for managing land and water resources facing climate change.

- *Dr. Lindsay Owens*, Ph.D. Fellow. [Roosevelt Institute](#). The Roosevelt Institute is a think tank focusing on moving the US toward a new economy and democracy by the people, for the people. Lindsay is an economic policy expert with a focus on housing, inequality, and labor. She previously served as a top adviser to Sen. Elizabeth Warren (D-MA) and Reps. Keith Ellison (D-MN) and Pramila Jayapal (D-WA). She holds a PhD in sociology from Stanford University and her writing and research has appeared in leading academic and popular outlets including Public Opinion Quarterly, The Annals of the American Academy of Political and Social Science, The New York Times, The San Jose Mercury News, and The Boston Globe. Her award-winning dissertation focused on the housing crash of 2008.

- *Recursion.* [Recursion](#) is the country's preeminent provider of mortgage big data analytics. It has a track record of supporting federal government agencies in their efforts to monitor market trends at both a macro and individual firm level and to stay on top of emerging risks by mining big mortgage data from a variety of different sources. Recursion's mission is to democratize mortgage big data to promote transparency in the financial market and fight the information asymmetry between big firms/monopolies and smaller organizations. Recursion is a Certified 8(a) Small Business (Economically Disadvantaged Minority Owned Small Business) and EDWOSB (Economically Disadvantaged Woman Owned Small Business).

- *RMI.* [RMI](#) (formerly Rocky Mountain Institute) is an independent, non-partisan, non-profit organization of experts across disciplines working to accelerate the clean energy transition and improve lives. Since the founding in 1982 by Amory Lovins, RMI's chairman emeritus, RMI has grown to over 300 staff working on four continents with a global reach and reputation. RMI's mission is to transform the global energy system to secure a clean, prosperous, zero-carbon future for all. RMI works with businesses, policymakers, communities and other organizations to drive market-based change on the massive scale needed to combat the climate crisis.

- *Vulnerable Communities Initiative, Inc*. The Vulnerable Communities Initiative was established in 2019 by [*Frank S. Alexander*](#), *Sam Nunn Professor of Law, Emeritus, Emory Law School,* with the purpose to identify, to learn from, and to support vulnerable communities as they seek to prepare for the impacts of climate change and natural disasters. VCI has created a vulnerability index by combining geographic mapping and various social vulnerability indices to identify vulnerable neighborhoods and communities in five Southeastern States in the US, and later, to assist and to support them as they confront the impacts of climate change. Frank is also the co-founder and a senior advisor of the [Center for Community Progress](#), an organization that helps US communities integrate vacant, abandoned, and blighted properties back into their economic and civic life.