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April 19, 2021

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

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

Dear Sir or Madam:

The Credit Union National Association (CUNA) represents America's credit unions and their more than 120 million members. On behalf of our members, we are writing regarding the Request for Information (RFI) recently published by Federal Housing Financial Agency (FHFA) regarding climate and natural disaster risk management at Fannie Mae, Freddie Mac and the Federal Home Loan Banks (the FHLBanks) (collectively, the regulated entities).

Background

In its RFI, the FHFA recognizes the risks that climate change and natural disasters pose to the stability of the economy, the housing finance system, and the regulated entities. The increased severity and frequency of natural disasters will likely result in increased delinquency rates, default rates, credit losses, credit related expenses, and loan loss frequency and severity.¹ The FHFA recognizes that traditional risk management and modeling techniques based on historical datasets may be of limited use and is seeking feedback on a variety of topics related the climate and natural disaster risk.

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

¹ FHFA, *Request for Information: Climate and Natural Disaster Risk Management at the Regulated Entities*, p. 2 (January 2021).

General Comments

Human activities have increased the concentration of atmospheric carbon dioxide, which, in turn, increases acidity of the oceans and warms the planet.² Some of the immediate and short-term effects of these changes are predictable and have been observed; however, longer-term effects can merely be estimated and may ultimately be impossible to predict. Modeling indicates that in the next 80 years, the United States should expect extreme heat events, intensified droughts, increased wildfires, increased heavy precipitation events, stronger storms and ³coastal flooding. The frequency and severity of weather-related disasters is likely to increase and the consequent damage will likely be compounded by continued population growth and urbanization.

Last year, the United States set a new annual record for the number of weather and climate disaster events for which losses exceeded \$1 billion — in 2020, twenty-two such disasters struck including droughts, flooding, tornadoes, hurricanes, and wildfires.⁴ While the average number of billion-dollar disasters per year since 1980 is seven, the average per year between 2015 and 2020 has more than doubled at 15.1.⁵ It is important to note that research has shown that the estimated costs of natural disasters is also consistently underestimated.⁶

It is tempting to think of this risk of loss as a problem to be solved through repricing or risk transfer, and certainly those mechanisms have important roles to play in maintaining stability; however, where natural disasters are increasingly intense, frequent, and geographically ubiquitous, there is ultimately no refuge where this risk can safely be borne. The effects of climate change will be felt in increasing insurance costs, discounted appraisals, declining home prices on existing stock, and a growing gap between those who can afford to pay for resilient housing and those who cannot. This will, in turn, reduce the strength and efficiency of the secondary mortgage market and endanger the regulated entities. As Federal Reserve Board Governor Brainard recently stated, “financial system vulnerabilities could arise even in transparent markets—for example, through aggregate common exposures to climate risk.”⁷

² Intergovernmental Panel on Climate Change (IPCC), Fifth Assessment Report, Policymakers Summary (2014), available at http://ipcc.ch/pdf/assessment-report/ar5/syr/AR5_SYR_FINAL_SPM.pdf. See also, Naomi Oreskes, “The Scientific Consensus on Climate Change,” *Science* 3 December 2004: Vol. 306 no. 5702, p. 1686, available at <http://www.sciencemag.org/content/306/5702/1686.full>. See also, United States Global Change Research Program, “Global Climate Change Impacts in the United States,” Cambridge University Press, 2009.

³ D.J. Wuebbles et al, USGCRP, 2017: *Climate Science Special Report: Fourth National Climate Assessment, Volume I*, U.S. Global Change Research Program, available at <https://science2017.globalchange.gov/>.

⁴ NOAA National Centers for Environmental Information (NCEI), *U.S. Billion-Dollar Weather and Climate Disasters* (2021), available at <https://www.ncdc.noaa.gov/billions/>.

⁵ *Id.*

⁶ See Smith and Matthews, *Quantifying Uncertainty and Variable Sensitivity Within the U.S. Billion-dollar Weather and Climate Disaster Cost Estimates*, NOAA National Climatic Data Center (2015), available at <https://www.ncdc.noaa.gov/monitoring-content/billions/docs/smith-and-matthews-2015.pdf>.

⁷ Lael Brainard, Governor of the Federal Reserve Board, *Financial Stability Implications of Climate Change*, “Transform Tomorrow Today,” Ceres 2021 Conference, Boston Massachusetts (March 23, 2021), available at <https://www.federalreserve.gov/newsevents/speech/brainard20210323a.htm>.

We currently occupy a period of transition where the direct effects of climate change are only felt in pockets around the country. This transition will likely be relatively brief,⁸ and it is critical that we look further ahead and recognize our common exposure to climate risk. In 2019, about 50% of counties in the United States experienced a disaster of some sort, and climate change will accelerate the current upwards trend.⁹ We must accept the aggregate common exposure of the entire country to this risk and respond accordingly.

The American housing finance sector exists in order ensure Americans have safe and affordable housing. Improving the resiliency in our housing stock is the only method of managing climate risk long-term that will not ultimately abandon less wealthy and non-White Americans. Counties that are hit by severe disasters experience greater out-migration, lower home prices, and higher poverty rates.¹⁰ The effects of natural disasters are not felt equally: Black, low-income, and moderate-income Americans are more likely to be forced to migrate from their home, less able to access protective strategies, and less likely to benefit from Federal aid than those who are wealthy or White.¹¹ The best way to manage climate change and natural disaster risk is to mitigate it by improving resiliency in the housing stock of the United States.

Mitigating the Risk to Our Housing Stock

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

⁸ Fountain, Henry, *Climate Change Is Accelerating, Bringing World 'Dangerously Close' to Irreversible Change*, New York Times (December 4, 2019), available at <https://www.nytimes.com/2019/12/04/climate/climate-change-acceleration.html>. See also, World Meteorological Organization (WMO), *State of the Global Climate 2020 Provisional Report* (2020), available at https://library.wmo.int/doc_num.php?explnum_id=10444.

⁹ Rebecca Hersher and Robert Benincase, *How Federal Disaster Money Favors the Rich*, "All Things Considered," NPR (March 5, 2019), available at <https://www.npr.org/2019/03/05/688786177/how-federal-disaster-money-favors-the-rich>.

¹⁰ Leah Platt Boustan et al, National Bureau of Economic Research (NBER) Working Paper Series, *The Effect of Natural Disasters on Economic Activity in US Counties: A Century of Data*, Working Paper 23410, p. 22 (May 2017), available at https://www.nber.org/system/files/working_papers/w23410/w23410.pdf.

¹¹ *Id.* at 19. See also Rebecca Hersher and Robert Benincase, *How Federal Disaster Money Favors the Rich*, "All Things Considered," NPR (March 5, 2019), available at <https://www.npr.org/2019/03/05/688786177/how-federal-disaster-money-favors-the-rich>.

Building Codes

Building codes are established by state governments and, in some jurisdictions, their political subdivisions. There is significant variance in building codes across the country. Beginning in 2000, the International Code Council (ICC) began publishing building codes (I-Codes), including the *International Residential Code* (IRC) which details building specifications for one- and two-family residential housing.¹² As of April 2020, only 38 states had adopted a version of the IRC.¹³ Of these, only ten states (or subdivisions of those states) had adopted the latest version published in 2018.¹⁴ Twenty adopted the 2015 version of the IRC, leaving eight states with adopted IRCs from 2012 or earlier.¹⁵ Twelve states and 65% of counties have not adopted any version of the IRC.¹⁶ These states and counties may have their own building codes, many of which may be more than two decades old.

In 2011, FEMA initiated a study which modeled the effect of IBC adoption on losses resulting from natural disasters. The study found of the 18.1 million buildings constructed after the initial publication of the I-Codes in 2000, 51% avoided the average annualized losses for the hazards modeled, totaling \$1.6 billion dollars in avoided losses.¹⁷ The study also estimated that between 2016 and 2040, only 70% of new construction would be built to an I-Code or similar building code.¹⁸ Only 20% of current building inventory is built to I-Code standards.¹⁹

Climate risks threaten the habitability and availability of cost-effective housing. Housing cost and affordability must be a primary concern in assessing the risks climate change poses on the housing finance sector. Less expensive housing is often older, located in flood zones where property itself is less expensive, and built with substandard materials that cannot withstand extreme weather.²⁰ The number of affordable housing units in the United States exposed to extreme coastal water levels and therefore at risk of flooding is projected to triple by 2050.²¹ Without some action, the result will be an acceleration in the number of unhoused Americans and a glut of abandoned and damaged structures not suitable for habitation.²²

¹² Federal Emergency Management Administration (FEMA), *Building Codes Save: A Nationwide Study: Losses Avoided as a Result of Adopting Hazard-Resistant Building Codes*, p. 1-1 (November 2020), available at https://www.fema.gov/sites/default/files/2020-11/fema_building-codes-save_study.pdf.

¹³ FEMA, *Building Codes Save*, p. 3-4.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ FEMA, *Building Codes Save*, p. ES-6.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ Teresa Wiltz, *Climate Change Is Making the Affordable Housing Crunch Worse*, PEW Stateline (August 30, 2019), available at <https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2019/08/30/climate-change-is-making-the-affordable-housing-crunch-worse>.

²¹ M K Buchanan et al, *Sea Level Rise and Coastal Flooding Threaten Affordable Housing*, Environmental Research Letters 15 (2020), available at <https://iopscience.iop.org/article/10.1088/1748-9326/abb266/pdf>.

²² See, Shelby D. Green, *Building Resilient Communities in the Wake of Climate Change While Keeping Affordable Housing Safe from Sea Changes in Nature and Policy*, 54 Washburn L.J., 527, 542 (2015), available at <https://digitalcommons.pace.edu/cgi/viewcontent.cgi?article=2004&context=lawfaculty>.

The importance of building codes is obvious, both in avoiding the losses to our economy and to individuals personally. However, a shift towards better, more resilient building codes must not price out low- and moderate-income borrowers from buying new construction. Ultimately, the savings pay for themselves as demonstrated by a 2019 study by the National Institute of Building Sciences which found adoption of the latest building codes saves \$11 per \$1 invested.²³ The FHFA should offer preferential pricing for new construction that meets most recent IRC standards, and consider strengthening programs intended to support low-income, moderate-income, and first-time homebuyers purchasing resilient, newly constructed homes.

Retrofitting

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

Depending on the size and scope of the project costs can vary, although the most common estimate is three to five percent of the cost of the house.²⁴ Long term savings in energy expenses and lower insurance premiums often exceed these costs.²⁵ However, borrowers who lack sufficient equity for borrowing may struggle to obtain financing. Further, the limited ability to securitize these loans results in a lack of liquidity for making these loans.²⁶ Retrofitting programs that improve liquidity, offer preferential pricing, and permit alternative underwriting criteria are a necessary and important tool in improving the resilience of American housing stock as a whole. To this end, the FHFA should avoid any pricing adjustments for these kinds of retrofitting efforts that would discourage low- and moderate-income borrowers from undertaking them.

The FHFA's currently policy against the purchase of mortgage loans with liens established by the PACE Program is understandable and CUNA shares the FHFA's concerns. However, this impasse must be resolved so that resiliency can improve. CUNA urges the FHFA to work with the Consumer Financial Protection Bureau (CFPB) to quickly promulgate a PACE financing rule that subjects PACE programs to the Truth in Lending Act (TILA) requirements.²⁷ The FHFA should also work with the financial services industry and consumer advocates to educate state and local lawmakers on the consumer protection issues and negative incentives that super-liens create in the

²³ National Institute of Building Sciences (NIBS), *Natural Hazard Mitigation Saves: 2019 Report*, p. 1 (December 1, 2019), available at https://www.nibs.org/files/pdfs/NIBS_MMC_MitigationSaves_2019.pdf.

²⁴ Green, *Building Resilient Communities*, 54 Washburn L.J. at 555.

²⁵ *Id.* at FN 206.

²⁶ *Id.* at 556-557.

²⁷ See Letter from CUNA Deputy Chief Advocacy Officer & Senior Counsel Elizabeth A. Eurgubian to Director Mark Calabria (March 16, 2020), available at https://www.cuna.org/uploadedFiles/Advocacy/Actions/Comment_Calls_Letters_and_Testimonies/2020/Comment_Letters/CUNA%20Letter%20to%20FHFA%20RE%20PACE%20RFI%20Notice%20No.%202020-N-1.pdf.

housing finance system. These efforts must be undertaken holistically across the entire housing finance system to ensure success.

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

The FHFA and the whole of the housing financing system must ensure that minority borrowers and low- and moderate-income borrowers are not abandoned to increased insurance premiums, rising housing costs, and devastated property values. The risk must be mitigated throughout the entire housing sector by leveraging financial tools to improve our housing stock, not simply to avoid holding the bag. Americans of all income levels deserve opportunities to secure safe, resilient, and affordable housing. Credit unions stand ready to help their members achieve the goal of sustainable and resilient housing. Sustainability is an extension of credit unions' service mission: "With a guiding principle of 'people helping people,' sustainability is in credit unions' DNA."²⁸ For its part, the FHFA must ensure that credit unions seeking to assist their members have access to the full range of tools the regulated entities can provide, including access to the secondary market, the ability to originate and sell conforming loans, and equal participation and access in opportunities provided by the regulated entities.

Conclusion

On behalf of America's credit unions and their more than 120 million members, thank you for your consideration. If you have questions or require additional information related to our feedback, please do not hesitate to contact me at (202) 503-7184 or elaberge@cuna.coop.

Sincerely,



Elizabeth M. Young LaBerge
Senior Director of Advocacy & Counsel
