Enterprise

April 19, 2021

Dr. Mark Calabria, FHFA Director
Office of the Director
400 7th Street, SW
Washington, DC 20219

Re: Federal Housing Finance Agency (FHFA) Request for Input (RFI) on Climate and Natural Disaster Risk Management at the Regulated Entities

Director Calabria,

Enterprise Community Partners (Enterprise) appreciates the opportunity to provide input in identifying and assessing climate and natural disaster risk and enhancing FHFA's supervisory and regulatory framework.

Enterprise is a national nonprofit on a mission to make home and community places of pride, power and belonging, and platforms for resilience and upward mobility for all. For more than 40 years, Enterprise has been committed to helping communities break down silos and build organizational capacity in both the public and private sectors so that funding is deployed more effectively. To date, we have invested $61 billion to help create or preserve 775,000 homes in all 50 states plus the District of Columbia and Puerto Rico. We work deeply across 11 markets in the US to create opportunity for low- and moderate-income households. Included in the Enterprise Family is Bellwether Enterprise Real Estate Capital, LLC, a national, full-service commercial and multifamily mortgage banking company, and a licensed Fannie Mae Delegated Underwriting and Servicing (DUS)™ – Multifamily Affordable and Market Rate lender and Freddie Mac Targeted Affordable Housing Lender and Optigo™ seller/servicer. Bellwether Enterprise supports the mission of creating and preserving affordable housing in thriving communities and is one of the fastest-growing commercial and multifamily mortgage banking companies in the country.

Enterprise is invested deeply in promoting resilience because low-income households and communities of color are most likely to be harmed by disasters and tend to be the slowest to recover. Socially vulnerable populations are also more likely to live in physically vulnerable areas that have greater natural hazard risks due to historical, economic, and political factors. Experience shows that disasters exacerbate wealth inequality. Through our Building Resilient Futures initiative, we are working to ensure that sustainable, resilient, affordable housing is designed, built and operated to mitigate, adapt to and recover quickly from disasters. We know the affordable housing shortage across the United States has reached a veritable tipping point; we are losing affordable housing units due to extreme storms and other disasters every year.

In 2005, we made a commitment to help rebuild homes and communities in the wake of the devastation caused by Hurricane Katrina. Fifteen years later, we have a track record of helping developers and owners assess risk and adapt buildings so they can withstand threats from disasters and our changing climate. Investments in, adaptation, mitigation and resilience pay off. At Enterprise, we saw that firsthand in 2017. When a very heavy rainfall flooded New Orleans, residents found their streets waist-deep in water, but our Faubourg-Lafitte development escaped harm because homes were built two feet above the base flood elevation, taking into consideration the possibility of future harm. Water did not breach the first floor, so homes were unharmed and there was no need to make a claim on the development's National Flood Insurance Program policy.

As communities suffer multiple events in shorter periods of time, the number of impacted housing units, especially affordable multifamily housing units is staggering. A recent study by the Climate Central estimates that "by 2050, virtually every coastal state is expected to have at least some affordable housing exposed to more than one coastal flood risk event per year, on average—up from about half of coastal states in the year 2000." Yet nearly 200,000 federally subsidized rental housing units are located in floodplains. Another report projects that 30 million people live in the combined 100-year and 500-year flood plains, mostly low-income and communities of color.

Due to its age, physical condition, and maintenance needs, most of the country's existing affordable housing cannot withstand our changing climate. At the same time, the systems designed to support affordable housing and its residents – from policy to financing to insurance to federal recovery programs – inadequately address today's needs, compounding the challenges faced by owners and investors. Enterprise has been a leader across the nation developing tools, programs, policies and products to minimize the risk to affordable housing due to changing climate. We have provided technical assistance to thousands of affordable housing operators, owners and renters on how to build resilient housing. All of our efforts are created and deployed in partnership with our public sector partners as well as community-based organizations.

Enterprise Recommendations

How should FHFA evaluate the adequacy of a regulated entity's ability to assess and manage the impacts of climate and natural disaster risk, particularly in light of the significant uncertainties and data limitations?

- Enterprise recommends that the FHFA increase awareness of foreseeable risks communities face by working with the White House and Federal agencies to provide the best available science and data on climate risk uniformly across the country – at the address level. Address-level data can help identify the risks of climate-related events on properties and mortgages portfolios. The Federal Government has the true incentive to assess such risks and to protect people, properties, and financial investments from harm with a shared understanding of risk. Enterprise has developed a planning tool, Portfolio Protect, that helps housing owners and operators as well as developers understand their risk to natural hazards. We are happy to share it with you: Portfolio Protect | Enterprise Community Partners.

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

- As part of FHFA's first Strategic Goal– to ensure safe and sound regulated entities–we recommend that the Agency initiates a comprehensive national climate change adaptation planning process that will guide the way GSEs assess, underwrite, and operate mortgages. The plan needs to drill down to the local level where we know the risks vary greatly. FHFA can also establish clear guidelines for banks as well as incorporate financing tools that incentivize investment in resilience and adaptation to changing climate risks. All strategies should assess risks, recommend solutions and actions to support and fund climate resilient communities.

- As part of FHFA's Duty to Serve (DTS) Program to promote housing affordability, preservation, and community investment, we recommend that the Agency encourage housing owners and developers to incorporate risk assessment and identification, design and construction strategies to support adaptation and mitigation best practice, and operational strategies to ensure that housing is maintained and operated to be resilient and able to adapt to the changing climate conditions. Explicitly– connecting resilience into some of the elements of the Duty to Serve program. FHFA should promote the use of resilience analyses in the development of the Duty to Serve business plans including the affordable housing preservation component of the program as well as manufactured housing. For instance, in the context of manufactured home communities, it is key to incorporate resilience and of the related infrastructure as part of the financing that is done under the DTS program and ensure procurement of housing elements are stable and adaptive.

- Additionally, Enterprise believes every unit of housing that the FHFA and the GSE's invests in and regulates, should have at minimum a business continuity plan that is aimed at ensuring continuity of operations before, during and after a disaster event. Enterprise created a tool, with support from Fannie Mae and HUD to provide affordable housing owners with an easy to use, accessible tool to develop and shape their own comprehensive business continuity plan. The tool has received widespread favor by the multifamily housing industry and addresses an owners-building's physical assets, resident's preparedness and business continuity. The tool is getting rolled out across the nation through trainings, webinars etc. Business Continuity Toolkit for Affordable Housing Organizations | (enterprisecommunity.org).

Are there existing or potential government agencies or programs that FHFA could partner with to enhance the Agency's supervision and regulation of climate and natural disaster risk to the regulated entities?

- The housing finance system as a whole, including the Federal Housing Administration (FHA), oversees a significant percentage of mortgages, therefore efforts to adapt to climate change and price in climate risk should be done across the entire housing finance system as the whole system absorbs risks from a changing climate. We recommend that FHFA act in concert with FHA, to avoid the unintended consequence of moving all climate risks from the GSEs to FHA. Otherwise, taxpayers would have to bear the first dollar of loss. Thus, addressing this across the board and not just within FHFA's purview is crucial to prevent creaming of the mortgages to lower risk areas for the GSEs and leaving FHA with riskier properties.

Policies to manage climate and natural disaster risk could increase the cost of housing, making it more difficult for lower income households in some areas to obtain affordable housing. Are there policies the *regulated entities could pursue to mitigate such adverse effects for lower income households in vulnerable areas without undermining efforts to manage climate and natural disaster risk?*

- Considering that low- and moderate-income (LMI) borrowers may be disproportionately impacted by climate risk, it is crucial to improve the distribution of costs across the mortgage portfolios via internal cross-subsidy rather than asking LMI borrowers to pay the cost of being priced out of less risky locations. Disbursing the cost has been a policy response to low-level price adjustments, but part of the guarantee fee should also include a climate risk adjustment. Given the distributional effects of property level pricing, applying this adjustment across the system could be more effective in addressing climate risks that remain regional in nature, even if they affect individual properties.

- While climate disclosure in lending applications can be a useful method of gathering empirical data and reducing mortgage portfolio exposure to climate risks, FHFA must ensure that the system is not inadvertently recreating punitive policies such as redlining. Vulnerable populations disproportionately live in areas with the highest climate risk, which also poses a risk to the affordable housing sector. To that end, we suggest the FHFA require an assessment of the intersection of units that count towards the affordable housing goals and degrees of climate risk and resilience. While this would be purely informational data for the time being, it would create a baseline for understanding the relationship between affordability and climate risk– understanding the intersection between the location of the vulnerable populations and the kinds of lending taking place to highlight in which scenarios upgrades are necessary and should be incentivized. Given the lack of affordable housing in low-risk areas, the GSEs should continue financing in higher-risk areas until an adequate affordable housing supply is available in low-risk locations. The GSEs should also provide capital, particularly in the multifamily space, for low-risk properties while ensuring properties in high-risk locations are less vulnerable to climate risk.

Enterprise and our partners have created free tools to help determine and address climate risks:

1. The *Enterprise Portfolio Protect Toolkit* helps owners, operators, and developers of affordable housing understand which properties are at highest risk from flooding, fire, earthquakes and other natural hazards.
2. Enterprise, in partnership with hundreds of leaders and building science professionals across the United States and Puerto Rico, created significant resources to define resilient multifamily and single family housing-Strategies for Resilient Multifamily Housing and Keep Safe Housing both of which have led to the creation of robust place-based programs to support climate risk reduction for existing and new housing development.
3. Enterprise in partnership with HUD and Fannie Mae recently launched *The Ready to Respond Business Continuity toolkit*, designed to help organizations develop comprehensive disaster staffing plans to protect buildings, engage residents and continue business operations in the event of a disaster.
4. Our green building certification program, *Enterprise Green Communities*, supports the design of sustainable affordable housing encompassing adaptation and mitigation strategies from site

selection through operations and maintenance and has been included in more than half of the States' Qualified Allocation Plans for Low Income Housing Tax Credits.

Conclusion

FHFA should be intentional in considering how any new climate risk procedures will impact the value of homes in low-income communities and communities with significant numbers of residents who are Black, Indigenous, and other people of color. In order for the regulated entities to support housing finance missions while minimizing the impact of climate and natural disaster risk, equity must be at the center of all policies and procedures – because any additional processes, procedures or changes in valuation will potentially have a negative impact on these communities.

FHFA must ensure that the GSEs, banks, and the communities they serve have the tools, knowledge, and capital to reduce risk to the nation's most vulnerable assets. That said, since many LMI families live in high-risk areas, it is crucial not to create tools that would lead to a disparate impact on LMI communities before making them more resilient or adding new affordable supply in less risky locations. Overall, recognizing that until a sufficient number of affordable alternatives exist for people, this will necessarily be a prolonged process rather than a radical policy change.

Thank you for your consideration of these comments, and if you have any questions, please do not hesitate to reach out to me (mmcfadden@enterprisecommunity.org) or Ayate Temsamani (atemsamani@enterprisecommunity.org).

Sincerely,

Marion Mollegen McFadden
SVP, Public Policy, Senior Advisor, Resilience
Enterprise Community Partners, inc.