April 19, 2021

Dr. Mark Calabria
Director
Federal Housing Finance Agency
400 7th St. SW
10th Floor
Washington, DC 20219

RE: Request for Input; Climate and Natural Disaster Risk Management at the Regulated Entities

Dear Director Calabria:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to provide input and commentary regarding Climate and Natural Disaster Risk Management at the Regulated Entities – specifically, Fannie Mae and Freddie Mac (the Enterprises or GSEs) and the Federal Home Loan Banks (FHLBs). These entities comprise the backbone of the U.S. Housing Finance system and provide trillions of dollars of liquidity annually for mortgage lending that funds both residential and multifamily properties nationwide. Community banks depend on these entities to be safe, sound, dependable, and competitive sources of liquidity in all markets and at all times, regardless of economic conditions. Any disruption of this liquidity can impact a community bank's ability to serve the needs of its community – especially when the disruption is a result of weather and/or climate-related events.

[1] *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.*

With nearly 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5 trillion in assets, over $4.4 trillion in deposits, and more than $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

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The GSEs and the FHLBs are and always have been exposed to climate and natural disaster risks, as are all financial institutions – including community banks. However, given the major role the entities play in the housing finance space and the economy in general, these climate-related exposures and risks are even more acute. It is therefore crucial that FHFA and the entities understand the concentration of climate and weather-related risks contained in their respective portfolios. Doing so involves a detailed analysis, backed by data, of any potential risks associated with climate change while acting in ways that do not disrupt the safety, soundness, and liquidity of the present housing finance system. Among other considerations, it also involves recognizing how prepayment speeds mitigate some longer-term climate-related risks. For example, thirty-year fixed rate mortgage loans typically prepay within a decade. We encourage FHFA to conduct a study on how and to what extent present loss mitigation actions already protect the entities from the risks of climate change.

FHFA and the regulated entities should therefore move in a cautious and transparent manner when making any policy changes meant to address climate change risk.

Given the above, ICBA's comments and recommendations will be focused on making sure the housing finance system remains safe, sound and liquid.

The GSEs need to be completely recapitalized as soon as possible.

The Enterprises' exposure to climate and natural disaster risks further demonstrates the need for FHFA and the U.S. Treasury to resolve the Treasury's ownership of the GSEs and amend the preferred stock purchase agreements (PSPAs) to allow the Enterprises to raise outside equity to recapitalize more rapidly. Relying primarily on retained earnings to reach full capitalization will take at least a decade, which will further expose the GSEs to numerous weather and natural disaster events – impairing their efforts to recapitalize and result in greater risk to taxpayers. If FHFA and the U.S Treasury are concerned about the predictions of increased severe climate-related events, there should be a greater sense of urgency to complete the recapitalization process as quickly as possible. Robust levels of capital will be the best way to minimize the impacts of these events on the housing finance system.

The Entities should explore methods to transfer some portion of climate-related risk to other third parties.

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The GSEs have pioneered the use of credit risk transfers (CRTs) over the past decade by successfully transferring a meaningful portion of credit risk to the capital markets. These structures, while varied, all transfer default risk to investors and reduce the impact on the GSEs' capital reserves when loans in those structures default. While the newly finalized GSE capital framework may require some adjustments in the capital treatment of these structures, the risks associated with climate change perhaps represent a reasonable justification to enable a more robust transfer of credit risk to the capital markets than what has occurred to date.

The Entities should also consult with reinsurers, and possibly the Federal Emergency Management Agency (FEMA) and the National Flood Insurance Program (NFIP) to develop programs or policies that could further mitigate flood risks to the Entities' portfolios. Care should be taken to minimize the impact of these or any other risk mitigation efforts on pricing, access to credit, and preserving reliable liquidity. Moreover, extreme care should be taken to prevent unnecessary disruption and negative impacts on property values in those markets where there may be increased flood or wildfire risk. As stated earlier, the Entities and the financial industry have always had these risks and likely always will.

ICBA appreciates the opportunity to provide feedback to FHFA on this very important and relevant topic of climate and natural disaster risks to the Enterprises and FHLBs. As stated above, it is critical the Entities are well capitalized and have a thorough understanding of the level of climate-related risks in their respective portfolios. However, ICBA cautions against undertaking mitigation efforts that may unduly impair access to credit or negatively impact property values in certain markets.

Please contact the undersigned at ron.haynie@icba.org if you have any questions regarding the content of this letter.

Sincerely,

Ron Haynie
Senior Vice President- Housing Finance Policy