

# United States Senate

WASHINGTON, DC 20510

January 31, 2020

Mr. Hugh Frater  
Chief Executive Officer  
Fannie Mae  
1100 15<sup>th</sup> St. NW  
Washington, DC 20005

Dear Mr. Frater:

We write regarding the growing risk that climate change poses to American communities, households, and the financial system.

Climate change is increasing the frequency and severity of extreme weather events across the country. In 2018 alone, the U.S. experienced 14 separate disasters causing more than \$1 billion in damage, including tropical cyclones, severe storms, winter storms, drought, and wildfire.<sup>1</sup> The National Oceanic and Atmospheric Administration's (NOAA) National Centers for Environmental Information (NCEI) Beyond the Data notes that the "number and cost of disasters are increasing over time due to a combination of increased exposure, vulnerability, and the fact that climate change is increasing the frequency of some types of extremes."<sup>2</sup> Many smaller weather events, including extreme rainfall, fires, and flooding caused significant additional damage.

Extreme weather events devastate communities and individuals. They can result in loss of and damage to critical services and infrastructure; businesses may close; days or weeks of work may go unpaid; homes may be damaged or destroyed; and lives may be lost. Understandably, extreme weather events can threaten financial institutions' soundness. As Fannie Mae has recognized in its regulatory filings, major disasters, including natural disasters, could negatively impact credit losses and credit-related expenses.<sup>3</sup>

A changing climate means more than increasing frequency of extreme events. The Network for Greening the Financial System (NGFS) has said that "longer term progressive shifts of the climate," including rising sea levels and higher average temperatures, pose a risk to the global financial system.<sup>4</sup> As Federal Reserve Governor Lael Brainard recently noted, climate change will also have "profound effects on the U.S. economy and financial system."<sup>5</sup>

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<sup>1</sup> "2018's Billion Dollar Disasters in Context," Adam B. Smith, NOAA Beyond the Data, available at <https://www.climate.gov/news-features/blogs/beyond-data/2018s-billion-dollar-disasters-context>.

<sup>2</sup> Id.

<sup>3</sup> Fannie Mae 2018 Form 10-K, available at <https://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2018/q42018.pdf>.

<sup>4</sup> "A Call for Action: Climate change as a source of financial risk," Network for Greening the Financial System, April 2019, available at [https://www.banque-france.fr/sites/default/files/media/2019/04/17/ngfs\\_first\\_comprehensive\\_report\\_-\\_17042019\\_0.pdf](https://www.banque-france.fr/sites/default/files/media/2019/04/17/ngfs_first_comprehensive_report_-_17042019_0.pdf).

<sup>5</sup> "Why Climate Change Matters for Monetary Policy and Financial Stability," remarks of Federal Reserve Governor Lael Brainard at "The Economics of Climate Change," November 8, 2019, available at <https://www.federalreserve.gov/newsevents/speech/brainard20191108a.htm>.

It is critical that Fannie Mae is prepared for these increasing risks so it can continue fulfilling its Congressionally-directed mission to facilitate access to homeownership throughout the nation and its statutory obligations to serve underserved markets and low- and moderate-income homebuyers and renters. In order to better understand the steps that Fannie Mae is taking to prepare for the effects of climate change on its business and on American communities, homeowners, and renters, we are requesting that you provide us with answers to the following questions by February 21, 2020.

1. Please describe and summarize any research Fannie Mae is currently undertaking to examine the threat that climate change, either through more extreme weather events or sustained changes to the environment, poses to communities, housing markets, and to Fannie Mae. If Fannie Mae is not currently researching the potential effects of climate change, please explain why it does not believe climate change to be a priority subject for research.
2. Please describe any activity, including risk modeling, that Fannie Mae has undertaken to better understand the risks of specific hazards, including flood, wildfires, hurricanes, and other extreme weather events to the housing and commercial property markets and to the properties it guarantees. Please describe the frequency with which Fannie Mae models these risks and any policies Fannie Mae maintains around assessing these risks. Please also identify other climate-related risks that Fannie Mae does not currently model but may choose to model in the future.
3. What insurance and other risk transfer transactions does Fannie Mae use to mitigate the risk of extreme weather events to individual households and to its book of business? Please include any insurance or transactions that Fannie Mae requires individual homeowners to enter into, as well as insurance or other transactions Fannie Mae engages in to reduce its own risks. Please also describe what procedures, if any, Fannie Mae has undertaken to ensure that individual insurance policies provide adequate protection for homeowners, renters, and Fannie Mae.
4. Please describe the processes and procedures Fannie Mae has, or what requirements it has for its servicers, to ensure that appropriate insurance coverages remain in place throughout the life of a mortgage loan, including flood insurance as required by the mandatory purchase requirement.
5. Fannie Mae is required to mandate flood insurance coverage for properties located within the special flood hazard area (SFHA) identified on flood insurance rate maps produced by the Federal Emergency Management Agency (FEMA). In addition to reviewing the regulatory FEMA flood maps to enforce mandatory purchase requirements, does Fannie Mae review any other maps or products projecting flood hazards? If so, please describe those additional maps or products and their use in risk management at Fannie Mae.
6. Does Fannie Mae produce any estimates of natural disaster risk as disclosures for insurers or other investors who purchase or guarantee mortgage credit risk from Fannie Mae? If so, please describe the parameters of those estimates.
7. Does Fannie Mae participate in any organizations or forums to discuss and manage climate-related risks? If so, please describe Fannie Mae's engagement with these efforts.
8. The Federal Reserve Bank of San Francisco's recent Community Development Innovation Review notes that "[w]ithout smart, proactive investments in adaptive capacity and resilience, low- and moderate-income (LMI) communities will likely be

disproportionately affected by climate change-related events.”<sup>6</sup> Fannie Mae has a Duty to Serve low- and moderate-income homeowners and renters in underserved markets, as well as obligations to ensure access to affordable housing through its affordable housing goals. Is Fannie Mae currently considering, or does it intend to consider, efforts to mitigate climate-related hazards for low- and moderate-income families as part of its Duty to Serve or otherwise?

Climate change poses significant risks to communities, households, and to the global economy. If we are unprepared, climate change could have particularly devastating impacts on the individuals and communities who can least afford it. We therefore believe that Fannie Mae and all other financial institutions must treat climate risk with the utmost seriousness. We hope that your answers to these questions will help to better inform our responses to these risks.

Sincerely,



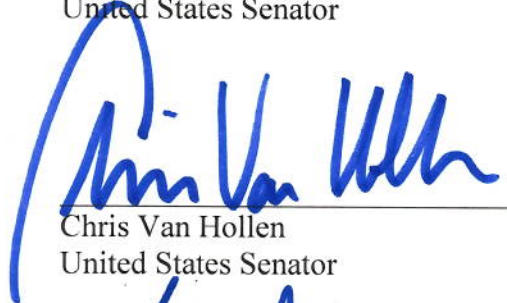
Sherrod Brown  
United States Senator



Sheldon Whitehouse  
United States Senator



Brian Schatz  
United States Senator



Chris Van Hollen  
United States Senator



Jeanne Shaheen  
United States Senator



Martin Heinrich  
United States Senator

<sup>6</sup> “Community Development Innovation Review: Strategies to Address Climate Change Risk in Low- and Moderate-income Communities,” Federal Reserve Bank of San Francisco, Volume 14, Issue 1, October 17, 2019, Foreword, available at <https://www.frbsf.org/community-development/publications/community-development-investment-review/>.



# United States Senate

WASHINGTON, DC 20510

January 31, 2020

Mr. David Brickman  
CEO  
Freddie Mac  
8200 Jones Branch Drive  
McLean VA 22103

Dear Mr. Brickman:

We write regarding the growing risk that climate change poses to American communities, households, and the financial system.

Climate change is increasing the frequency and severity of extreme weather events across the country. In 2018 alone, the U.S. experienced 14 separate disasters causing more than \$1 billion in damage, including tropical cyclones, severe storms, winter storms, drought, and wildfire.<sup>1</sup> The National Oceanic and Atmospheric Administration's (NOAA) National Centers for Environmental Information (NCEI) Beyond the Data notes that the "number and cost of disasters are increasing over time due to a combination of increased exposure, vulnerability, and the fact that climate change is increasing the frequency of some types of extremes."<sup>2</sup> Many smaller weather events, including extreme rainfall, fires, and flooding caused significant additional damage.

Extreme weather events devastate communities and individuals. They can result in loss of and damage to critical services and infrastructure; businesses may close; days or weeks of work may go unpaid; homes may be damaged or destroyed; and lives may be lost. Understandably, extreme weather events can threaten financial institutions' soundness. As Freddie Mac has recognized in its regulatory filings, major natural or environmental disasters or other catastrophic events, could negatively impact credit losses and credit-related expenses.<sup>3</sup>

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It is critical that Freddie Mac is prepared for these increasing risks so it can continue fulfilling its Congressionally-directed mission to facilitate access to homeownership throughout the nation and its statutory obligations to serve underserved markets and low- and moderate-income homebuyers and renters. In order to better understand the steps that Freddie Mac is taking to prepare for the effects of climate change on its business and on American communities, homeowners, and renters, we are requesting that you provide us with answers to the following questions by February 21, 2020.

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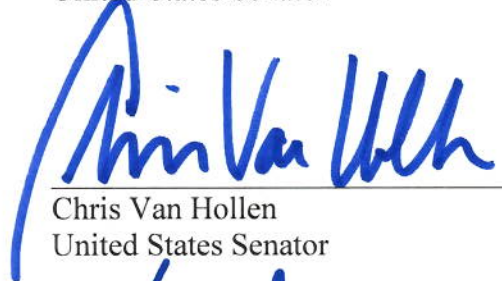
Sherrod Brown  
United States Senator



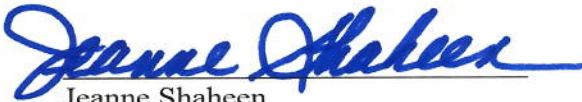
Sheldon Whitehouse  
United States Senator



Brian Schatz  
United States Senator



Chris Van Hollen  
United States Senator



Jeanne Shaheen  
United States Senator



Martin Heinrich  
United States Senator

<sup>6</sup> “Community Development Innovation Review: Strategies to Address Climate Change Risk in Low- and Moderate-income Communities,” Federal Reserve Bank of San Francisco, Volume 14, Issue 1, October 17, 2019, Foreword, available at <https://www.frbsf.org/community-development/publications/community-development-investment-review/>.