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Federal Housing Finance Agency
400 7th Street, SW
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Via FHFA Open for Comment or Input Page

Re: RIN 2590–AB53: Notice of Proposed Rulemaking; Response to repeal of 12 CFR Part 1293 - Fair Lending, Fair Housing, and Equitable Housing Finance Plans

Dear Associate Director Bloomfield and Counsel Jones:

It is a pleasure to submit comments on behalf of Ceres and the Ceres Accelerator for Sustainable Capital Markets. Ceres is a nonprofit advocacy organization with over 30 years of experience working to accelerate the transition to a cleaner, more just, and resilient economy. Our Investor Network, Company Network, and Policy Network include many large US institutional investors and large companies with whom we work on a range of sustainability-related and policy-related issues. The Ceres Accelerator for Sustainable Capital Markets aims to transform the practices and policies that govern capital markets by engaging federal and state regulators, financial institutions, investors, and corporate boards to address weather-driven risk as a systemic financial risk. The comments provided herein represent only the opinions of Ceres, and do not necessarily infer endorsement by each member of our Investor, Company, or Policy Networks.

Ceres is writing in strong opposition to the Federal Housing Finance Agency's (FHFA) 2025 Proposed Rule to rescind 12 CFR part 1293 - the Fair Lending, Fair Housing, and Equitable Housing Finance Plans Final Rule. Repealing this regulation would weaken systemic risk oversight, reduce transparency, and undermine equitable housing access at precisely the moment when increased natural disasters and insurance volatility are compounding and threatening the safety and soundness of the housing finance system. As an essential provision for promoting equitable and sustainable housing opportunities for underserved communities that can help facilitate the advancement of millions of Americans in pursuing their homeownership goals during an affordable housing crisis, we ask that you withdraw the 2025 proposed rule and maintain the 2024 Fair Lending, Fair Housing, and Equitable Housing Plans Final Rule.

I. INTRODUCTION

The 2024 Fair Lending, Fair Housing, and Equitable Housing Finance Plans Final Rule (12 CFR PART 1293) critically codified the FHFA's existing practices and programs regarding fair housing and fair lending oversight of its regulated entities, including the Equitable Housing Finance Plan program for Fannie Mae and Freddie Mac (Enterprises). This advanced the FHFA and Enterprises' ability to fulfill their mission by:

- **Embedding equity in governance**: requiring Fannie Mae, Freddie Mac, and the FHLBanks to adopt enterprise-level plans with board accountability.
- **Enhancing transparency**: mandating consistent, comparable reporting on equitable housing progress.
- **Safeguarding safety and soundness**: addressing inequitable lending and weather-driven shocks as material financial risks, not just compliance matters.

Undoing these essential provisions would thwart their ability to address discrimination and exploitation and hinder their ability to measure their effectiveness and impact.

The 2024 Final Rule is important not only for driving fairness and access in vulnerable communities, but also for addressing systemic physical risks. Physical risks continue to mount as natural disasters such as hurricanes, sea level rise, and droughts increase in both frequency and severity. Financial institutions are exposed to a range of physical risks: from the direct losses of weather-related events, the indirect losses from the impacts on assets, businesses, and industries through their mortgage loan portfolios, investments in securities backed by mortgages in extreme-weather prone areas or regions, and real estate holdings. These catastrophic events are an unfortunate yet persistent reality that further damages the affordable housing supply, leading to slower repairs and even the inability to rebuild or build new homes where funding is scarce and rehabilitation and resiliency costs are high. Lower income homeowners are particularly vulnerable given that they are often situated in areas more susceptible to natural disasters and they often have fewer resources to invest in weather resilient infrastructure or recover from damages caused by natural disasters.

Financial risks from extreme weather-related catastrophes are a serious, far-reaching, and a growing threat to the global economy, and the U.S. financial system is far from immune. The United States continues to grapple with extreme weather events while the frequency, severity, and cost of these events have continued to break records. 2023 was a record year for the U.S., with 28 separate weather-driven disasters where losses exceed $1 billion, costing over $92.9 billion and causing 2.5 million Americans to lose their homes temporarily or permanently. 2024 had 24 separate events for a total of $61.6 billion. Experts estimate that nearly half of all U.S. homes will face severe or extreme damage from weather-driven risk, and that 7.5 million people will leave areas with current or emerging exposure to natural hazards and extreme weather catastrophes in the next 30 years. Such stark forecasts underscore the imperative for regulatory measures that account for these shocks to safeguard safety and soundness of the housing finance system.

Financial institutions are undoubtedly exposed to financial risks from natural disasters and extreme weather, and the Enterprises and FHLBanks (the Entities) are no exception. This can result in significant financial losses for the Entities and the communities they serve, jeopardizing affordable housing goals. The Enterprises collectively guarantee over $7.7 trillion in mortgages — nearly half of the U.S. market. This concentration of credit risk makes forward-looking oversight essential for protecting households, taxpayers, and global investors in Agency MBS.

The insurance industry also faces a critical challenge: how to maintain affordable coverage while managing growing risks. Between 2021 and 2024, insurance premiums increased in 95% of U.S.

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zip codes with the average homeowner seeing a 24% jump in insurance costs over that time frame due to the escalating severity and frequency of weather-related disasters. One in four policyholders received nonrenewal notices as insurers tightened their underwriting or withdrew from risky markets entirely. Traditional approaches that simply raise premiums or lead to the withdrawal from high-risk areas are unsustainable and leave underserved communities vulnerable. This insurance gap deepens disparities in housing and wealth, as negative economic impacts induced by disasters disproportionately harm vulnerable households, who tend to have lower insurance coverage and face higher barriers to accessing sufficient funds for recovery from all of these sources.

As extreme weather and natural hazards accelerate, bringing more frequent and severe physical catastrophes, skyrocketing insurance premiums, market withdrawals, and solvency concerns lead to less affordable housing. When insurance becomes inaccessible or too costly, new home buyers are unable to qualify for quality housing financing, and existing homeowners may lose coverage, leading to property value declines and mortgage defaults. This creates significant risks for banks and other housing financiers, including increased loan defaults, reduced mortgage originations, and reduced availability of housing finance.

2024 demonstrated a record number of U.S residents displaced by disasters as 11 million people had to relocate because of hurricanes, floods, and wildfires. This poses significant financial risks to the nation's housing and mortgage markets and exacerbates existing inequities that underserved communities confront. The occurrence of natural disasters aggressively discount the home prices in affected areas. For many LMI families, their home is their primary source of wealth. Depreciating property values can deepen economic inequalities as these families lose what is often their only asset. The combination of historical disinvestment and extreme weather exposure can deepen the inequality experienced by these vulnerable communities.

Addressing Concerns in the NPR

In the 2025 Proposed Rule, FHFA expresses concerns that the fair lending regulation may be duplicative, costly, and potentially unnecessary. Upon closer examination, we respectfully disagree.

- **Unique value –** The FHFA's framework is proactive, which helps ensure that risks are identified and managed before they materialize. It uniquely requires forward-looking planning, board-level accountability, and public disclosure. Thus, this is not duplicative, but uniquely complementary to the rules from HUD and CFPB, which enforce fair-lending laws only after violations occur.
- **Minimal cost vs. significant systemic risk** – The costs of compliance are minimal compared to the potential systemic exposures at stake. The Enterprises collectively guarantee about $7.7 trillion in mortgages, and the Congressional Budget Office estimated that the present value of expected flood damage for the federally backed mortgage homes will rise from $190 billion in 2020 to $258 billion by 2050. In this magnitude, the expense of developing and maintaining fair-lending and weather-related risk plans is negligible

relative to the potential losses to homeowners, taxpayers, and the broader financial system. Furthermore, an assessment of the 2024 Final Rule by the Government Accountability Office (GAO) denoted FHFA's certification that "this final rule will not have a significant economic impact on a substantial number of small entities."

- **Transparency enhances efficiency** – Standardized, forward-looking plans provide regulators and the market with comparable information, which improves supervisory efficiency and helps identify systemic vulnerabilities. This is also the information that investors consistently demand. By contrast, repealing these requirements would obscure risks at the very moment when disaster and insurance shocks are accelerating, leaving regulators and investors less able to anticipate and respond to threats. Transparent reporting of geographic exposure and mitigation actions helps GSE MBS investors accurately price risk, supporting market liquidity and reducing exposure to volatility premiums.
- **Existing law insufficiency –** While the Fair Housing Act and Equal Credit Opportunity Act prohibit discrimination, they stop short of requiring measurable equity goals or enterprise-wide planning. FHFA's framework closes this gap by mandating that the Enterprises embed these objectives into their business models and risk-management practices.

Regarding the statutory authorization of the 2024 Final Rule, the GAO affirmed in their assessment that "FHFA promulgated the final rule pursuant to sections 1456(c)(1), 1723a(m)(1), 4511, 4513, 4514, 4517, and 4526 of title 12, and section 3608(d) of title 42, United States Code."

Investors in $7.7 trillion of Agency MBS rely on transparent, comparable data to price risk and maintain liquidity. Repealing the 2024 Final Rule would obscure systemic vulnerabilities just as weather-related loss events are accelerating, risking higher risk premiums or reduced participation in UMBS markets. This rescission would directly undermine FHFA's national policy priorities and the safety and soundness of the housing finance system, especially given the current significant threats imposed by intensive natural disasters and insurance volatility. Weakening this framework would undermine the US markets and the American communities at a time when proactive planning is more critical than ever.

II. ESCALATING FINANCIAL RISKS WITHOUT FHFA'S FRAMEWORK

The U.S. mortgage market is facing critical challenges that could lead to widespread implications. Backing about half of the entire US mortgage market, the Enterprises can either be the guardians of the system or the force that wrecks it.

First, the scale and complexity of today's housing-finance risks cannot be overstated. The Enterprises collectively guarantee about $7.7 trillion in mortgages, with Fannie Mae at **$4.1 trillion and Freddie Mac** at **$3.6 trillion as of mid-2025. This immense exposure means that any systemic shock, whether triggered by weather-driven disasters**, insurance-market volatility, or credit-market stress, will reverberate not only across U.S. households but through global financial markets.

A key and growing vulnerability comes from insurance volatility. Rising homeowners' insurance premiums directly affect mortgage performance. Research shows that a one-standard-deviation increase in premiums is linked to a 16 percent higher probability of delinquency, and premium hikes since 2021 alone have contributed to an estimated 149,000 additional delinquent borrowers. At the same time, insurers have non-renewed more than 1.9 million homeowners'

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policies between 2018 and 2023 across multiple states, leaving households and lenders exposed and undermining the very collateral value that supports federally backed mortgages.

These dynamics are compounded by the material and growing costs of weather-driven disaster damage. The National Flood Insurance Program (NFIP) is the backbone of the U.S. flood-risk system. Managed by FEMA, it covers 4.7 million policies nationwide with more than $1.3 trillion in insured value, in 22,000+ communities nationwide. FEMA estimating that NFIP floodplain standards avoid nearly $2.4 billion in annual flood losses. The Congressional Budget Office (CBO) assesses the impact of weather-driven disasters on flood damage and federally backed mortgages, and it estimated that the present value of expected flood damage for these homes will rise from $190 billion in 2020 to $258 billion by 2050. More broadly, a real estate industry 2025 Report finds that nearly one in five homes in the United States (≈$8 trillion in value) face severe or extreme hurricane-wind risk, while another 6.1 percent ($3.4 trillion) are at severe or extreme flood risk, and 5.6 percent ($3.2 trillion) face severe or extreme wildfire risk. Deductibles exacerbate this pressure: in 19 states and D.C., hurricane deductibles of 1–5 percent — and up to 10 percent in some cases — can translate into $20,000 out-of-pocket costs for a family with a $400,000 home.

Furthermore, collateral is systematically mispriced and under protected. Peer-reviewed studies estimate that flood-exposed properties are overvalued by $121–237 billion, creating hidden fragilities in mortgage portfolios. The Consumer Financial Protection Bureau has found that more than 400,000 mortgaged homes in the Southeast and Central Southwest are under-insured due to the limitations of FEMA flood maps. First Street Foundation further reports that about 13 million properties nationwide face substantial flood risk without adequate coverage — many of them with federally guaranteed mortgages. While the National Flood Insurance Program (NFIP) currently provides coverage to about 4.7 million policies worth over $1.3 trillion, its concentrated exposure is itself a systemic vulnerability.

Together, these trends illustrate how weather-related risk and insurance volatility are already eroding mortgage performance, inflating systemic exposures, and leaving millions of households vulnerable. Without FHFA's equitable housing finance framework, these pressures will continue to accumulate unchecked, threatening both community stability and the safety and soundness of the broader housing finance system. Part 1293 gives FHFA a forward-looking supervisory lever to require the Enterprises to integrate insurance data, geographic exposure, and disaster preparation into risk management. Repealing it would remove the clearest mechanism for ensuring these systemic threats are mitigated before they destabilize the market.

III. FROM REDLINING TO BLUELINING: A SYSTEMIC EQUITY RISK

Housing finance disparities remain a stark issue and contribute to economic inequality aggravating the historic effects of systemic racism and discrimination in housing markets. While homeownership serves as an important avenue for building wealth and the transfer of wealth across generations, disparities can endure across family life cycles. In 2017, the Urban Institute quantified a 30% homeownership gap between White Americans and Black Americans. Across the U.S., households of color hold a smaller share of housing wealth and own homes of lower value. Studies of 61 metro areas reveal the continued practice of modern-day redlining.

While natural disasters and extreme weather affect everyone, it has a disproportionate impact on low-to-moderate income communities. Decades of systemic underinvestment and redlining have impeded access to the most basic financial services for these communities. As extreme weather events and risks damage property, impair household and community financial conditions, and reduce services to frontline communities, banks and insurance companies are becoming more reluctant to serve vulnerable areas, which are disproportionately LMI communities, and are beginning to withdraw from or increase prices in areas exposed to physical risks. This disinvestment – often a result of financial redlining also called "bluelining" compounds the burdens LMI communities already face from natural disasters, extreme weather events, and historic redlining.

Housing discrimination permeates from related industries as well, such as biased appraisals in the home appraisal industry, which continue to deprive Black and Brown families of wealth through homeownership, and credit scoring models that deny homeownership and wealth-building opportunities to marginalized communities. 12 CFR PART 1293 functions to fill an existing gap by ensuring the FHFA, Enterprises, and the FHLB's ability to facilitate access to safe and affordable housing. Repealing the key provisions of the 2024 Final Rule would result in a deeper racial wealth gap, fewer affordable housing options, and higher concentrations of defaults in precisely those areas long underserved by finance — a threat to both equity and systemic stability.

IV. CONCLUSION

Therefore, we recommend FHFA to

- **Withdraw the repeal** and reaffirm the 2024 regulation.

- **Strengthen the framework** by:
  a. Requiring integration of insurance and natural disaster data into equitable housing plans.
  b. Mandating board-level resilience and equity expertise.
  c. Setting public KPIs on lending equity, insurance availability, and resilience financing.

- **Advance a just transition** by ensuring credit remains available in disaster-exposed areas and financing upgrades (resilient roofs, flood-proofing, efficiency) that reduce both borrower costs and systemic risk.

In sum, the proposed repeal may reduce minor compliance costs today, but it magnifies systemic vulnerabilities tomorrow. With trillions in taxpayer-backed mortgages at stake, FHFA should maintain — and strengthen — the Fair Lending, Fair Housing, and Equitable Housing Finance Plans framework. Anything less increases the risk that disaster and insurance shocks, layered on top of historic inequities, will destabilize both communities and the broader financial system.

Thank you for considering our comments on this critical issue. Please contact Holly Li (hli@ceres.org) for any questions or suggestions. Thank you again for your leadership!

Sincerely,

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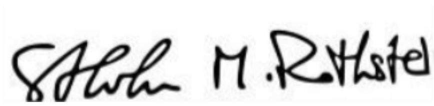

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