United States House of Representatives
Select Committee on the Climate Crisis

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"Creating a Climate Resilient America:
Smart Finance for Strong Communities"

Questions for the Record

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<u>The Honorable Kathy Castor</u>

1. **In your testimony, you recommended that Congress work to ensure a market for affordable insurance. In your experience, how are retrofits to homes currently accounted for in the National Flood Insurance Program? As FEMA works to adjust its flood insurance rating methods, what are the sorts of flood and storm mitigation measures that should be accounted for to reduce risk and insurance rates? How important is it to your strategic program for community resilience finance for federal insurance to discount insurance costs based on those resilience characteristics of homes for your borrowers?**

The National Flood Insurance Program as currently structured does not adequately account for climate resilience retrofits. The majority of homes across America lack the proper protection against catastrophic climate events. Financial markets have not fully adjusted to the realities of climate change and the risks placed upon cities. Prior to Hurricane Katrina, The Finance Authority of New Orleans had an approximately $395 million balance sheet mostly composed of residential mortgage backed securities. Today that portfolio is valued at around $20 million as a direct result of homes and infrastructure not being resilient enough to withstand a major climate and financial disaster.

FANO's story is a cautionary tale of the wide-ranging effects climate events can have on a community. Moving forward, we must ensure that every home and the public infrastructure supporting those homes is protected from climate events. This can be accomplished by the Federal Government using its financial resources to create a market for climate disaster insurance tied to the existing mortgage market.

The tandem of a climate resilience mortgage and insurance product would provide upfront capital to allow the homeowner to invest in climate mitigation measures such as roof fortification, stormwater management systems, solar panels, permeable pavement, energy efficient equipment and other measures specific to certain geographies. Many communities do not have adequate resources to fix these problems on their own. Innovation is needed and it must begin with the public sector. FANO is actively recruiting private financial institutions and corporations to play a role in addressing our climate challenges but more support is needed from the Federal Government to make American cities first-class.

2. **What do communities most need in terms of technical assistance to ensure that planning is inclusive and that investments drive resilient outcomes for everyone in the community?**

Community education regarding the realities of climate change is a critical need on all levels of society. Municipalities, private companies and non-profit organizations must cooperate to fully understand the severity of this issue. In my estimation, the issue of climate change is not fully understood and accepted by all community stakeholders.

Congress should provide direct financial support for cities to lead the effort to educate America about the opportunities and risks of climate change. Community design sessions focused on green and smart infrastructure is an example of how cities can utilize technical assistance funding. All cities should be required to deliver a climate resilience plan built by their respective communities. This is also an opportunity for cities to collaborate by sharing knowledge and solutions with an eye toward innovation. America should have the most innovative cities in the world.

3. **How can Congress help ensure that minority- and women-owned local businesses can take advantage of redevelopment and climate resilience investments, which would provide additional economic benefits to localities?**

Congress should provide financial incentives and support to cities that actively invest in minority and women owned businesses focused on climate resilience. I recommend the following solutions:

1. Technical assistance funding for educating and training minority and women owned businesses to capture the opportunities provided by a city investing in climate resilience.
2. Federal tax credit program for minority and women owned small businesses that start climate resilience-based companies and/or projects.
3. Financial incentives for cities that prioritize operating and capital budget spending on minority and women owned businesses.
4. Below-market or tax-exempt funding for minority owned financial institutions to invest in climate resilience businesses and community development projects.
5. Funding for minority developers and homebuilders to encourage housing innovation in distressed communities.

<u>The Honorable Garret Graves</u>

1. **Being from coastal Louisiana, you and I both know that people are always going to live by water. With that reality, it's necessary that communities have the tools they need to adapt to safely live by water.**

    a. **How do you suggest we monetize certain gov. functions and infrastructure that will be necessary to build resilience?**

Climate resilience based financial products are limited in today's market. Property Assessed Clean Energy ("PACE") financing is gaining momentum but less than half of U.S. states have passed legislation to activate this method of financing climate resilience. PACE financing allows a property owner to finance climate resilience and green measures on its annual property tax bill. The cost of resilience to the property owner is spread over a 20-year period and can be passed on to future property owners until all improvements are paid for.

PACE financing is becoming popular because it is otherwise difficult to fully finance climate resilience improvements with conventional bank financing. Commercial banks limit the amount of improvements that can be made and require a more aggressive payback term. Alternatively, PACE financing allows a property owner to use their tax bill as a financing tool. As a result, PACE lenders or investors have seniority over the mortgage lender for the underlying property. This has made commercial banks uncomfortable and led to many states rejecting PACE based financing for their cities.

Existing mortgage and insurance products do not allow a property owner to maximize climate mitigation. However, a combination of PACE financing with a climate resilience-based mortgage and insurance product would stimulate climate mitigation investing. The Federal Government should require states to allow PACE financing or develop alternative plans for financing climate resilience. It is unacceptable that states are exposing its citizens to danger by ignoring the realities of climate resilience. Every state should be held accountable for a solution to mitigate climate risks.

    b. **How do you see green infrastructure playing a role as we adapt for the changing climate?**

Green infrastructure is the foundation of climate resilience investing for cities. Cities must lead the way by transforming our public spaces into climate resilience projects that protect and beautify our communities. Prioritizing and incentivizing investment in green infrastructure will fuel capital markets, increase innovation and give disadvantaged minority communities a chance to rebuild. A coordinated green infrastructure strategy for all levels of government is needed to make green infrastructure a reality.

2. **For some communities, federal disaster insurance is not an option. The National Flood Insurance Program (NFIP) exists for those in a 100 year floodplain, where communities often see reoccurring floods. However, when disaster strikes areas where flood insurance is not required or when communities are devastated by**

exceptional disasters other than floods, the taxpayer steps in to help anyway. In these cases, homeowners receive payments from taxpayer-funded disaster assistance programs without ever having to pay premiums.

a. **Given your financial and public service background, how can the federal government reconceptualize its approach to comprehensive disaster coverage to ensure that homeowners are able to afford the insurance coverage they need, without leaving the taxpayer on the hook again and again?**

A missing link in the U.S. mortgage market is a connection to climate resilience. FHA has taken a step forward by creating an Energy Efficient Mortgage ("EEM") product that allows homeowners to upgrade their homes with green or climate resilient features. However, more support is needed to ensure a climate resilient housing stock in all cities. FHA's EEM provides the homeowner with some assistance but it is typically short of what is needed to completely mitigate climate risks.

A new form of comprehensive homeowner's disaster insurance should be considered to increase the amount of upfront funding and long-term protection available to homeowners. The U.S. government has the balance sheet to create a market for this type of insurance product. This new climate resilience insurance product can be delivered through the nation's housing finance agencies and green banks alongside their existing single-family mortgage programs. Housing finance agencies issue over $20 billion in mortgage revenue bonds annually with a minimal amount of those funds dedicated to making homes more climate resilient.

Creating a climate resilience product will incentivize housing finance agencies to form partnerships with insurance companies and commercial banks. The desired end result of this collaboration is a more climate resilient America and increased economic opportunity. Cities will be able to physically transform their housing stocks with a U.S. government supported climate insurance product.

References Page

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