August 7, 2023

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency (FHFA)
Tenth Floor, 400 Seventh Street SW
Washington, D.C. 20219

Dear Director Thompson,

Thank you for your leadership in expanding access to affordable homeownership, closing the racial equity gap in housing, and addressing the imminent risks climate change and household energy burdens pose to the financial stability of the Government Sponsored Enterprises (Enterprises) you regulate and support. The undersigned affordable housing, consumer, justice, energy efficiency, and environmental organizations urge you to build on those successes by directing the Enterprises to require that all mortgages for new homes backed by the Enterprises meet the same building code requirements currently proposed by the Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA). We respectfully request a meeting with you and your team to discuss this critical action to further ensure the financial stability of the Enterprises and advance affordable homeownership and affordable rental housing.

Home Energy Standards Would Increase Household Resilience to Financial and Climate-Driven Risks
Adopting current building energy codes can greatly reduce ongoing energy costs and increase resilience to extreme conditions exacerbated by climate change. The latest building energy codes that HUD and USDA have proposed to adopt as the minimum efficiency levels for some newly constructed units supported by their programs - 2021 International Energy Conservation Code (IECC 2021) and ANSI/ASHRAE/IES Standard 90.1-2019 (Standard 90.1-2019) - are projected to reduce energy use by almost 30% compared to the previous code versions those agencies currently require. A July 2023 study from Pacific Northwest National Laboratory (PNNL) for the Department of Energy (DOE) found dramatic improvements in home habitability during extreme weather conditions from meeting IECC 2021, and a 2020 study for the Federal Emergency Management Agency (FEMA) estimated hundreds of billions of dollars in community savings from the hazard resistant provisions of previous versions of international building codes. Building codes save lives, reduce the risk of damage to homes from extreme weather events, and save money each month by reducing utility bills, all of which in turn increase the likelihood of mortgage repayment.

Home Energy Standards Support Systemic Stability and Reduce Market Distortions
Expanding the share of mortgages backing properties with reduced energy costs and risk of damage from climate events can be a critical component of reducing risk to the Enterprises. This is especially true in light of the increasing risk to the Enterprises from a rapidly shifting property insurance landscape, disaster-induced defaults and potential writedowns in collateral. The Mortgage Bankers' Association's Research Institute for Housing America's 2021 special report, "The Impact of Climate Change on Housing and Housing Finance," noted the possibility of subjecting the Enterprises to adverse selection relative to private investors who can leverage "property-level climate risk indicators when pricing geographically-concentrated mortgage securities and CRT securities and reinsurance contracts." Reducing risk to the underlying collateral will translate to reduced systemic risk.

Furthermore, the benefits of better building codes persist throughout the entire lifetime of the home, resulting in lower utility bills and greater resiliency and comfort for not only the first resident of the home, but future residents as well. PNNL analysis for HUD found the cost of meeting codes was only 2% of the average cost of a new home supported by HUD or USDA programs, and pays for itself in less than 3 years on average. Over time, as more homes are built to the proposed standard, the aggregate level of physical risk to the housing stock will be reduced, as will the owners' operating costs.

To that end, FHFA plays a critical role in setting the standards by which the entire mortgage market operates, and by extension, the availability of financing shapes the standards to which new homes will be built. Historically, the Enterprises financed more than half of the purchase mortgages on all newly built homes between 2013 and 2020.[1] In contrast, HUD, USDA, and Department of Veterans Affairs (VA) combined to finance fewer than one-third of purchase mortgages over the same time period. Bringing FHFA, HUD, USDA, and VA into alignment would minimize market distortions and advance the agency's mission to ensure deeply liquid mortgage markets. Conversely, disparate standards would limit borrower options and would potentially exacerbate adverse selection into GSE loans from HUD, USDA, VA and private investors.

Home Energy Standards Would Support Mortgage Repayment

Mortgage repayment rates are at risk from the increasingly destructive forces of extreme conditions and escalating energy burdens for low-income households, posing significant financial risks for the stability of the Enterprises. According to Fannie Mae, utilities are already the third highest monthly cost for first time low-income homeowners, behind only property taxes and home repairs. The increasing likelihood of damage to homes from flooding and wildfires is well documented. We recognize FHFA's strong performance on issues of climate risk, energy burdens, and housing affordability, as demonstrated through Ceres' recent 2023 scorecard and your team's oversight of the Enterprises' Duty to Serve and Equitable Housing Finance plans. Yet taking this single action - requiring Enterprise-guaranteed mortgages for new homes to meet IECC 2021 or Standard 90.1-2019 in tandem with HUD, USDA, and the VA - would build tremendously on the progress FHFA has already made protecting both homeowners and the Enterprises from those risks for new homes.

FHFA Action Will Help Ensure Benefits for the Lowest-Income Homebuyers and Renters

Collective action by all of the federal agencies supporting accessible housing finance will help ensure benefits for all, but especially the lowest-income homebuyers and renters. Together, the Enterprises and federal agencies support more than 70% of all home mortgages in the United States. While any individual entity may not serve enough of the market to reach scale and make healthy, resilient, energy-efficient homes standard practice for homebuilders, working together to take comparable action is enough to shift the market. That scale ensures robust availability of new code-compliant homes and can lower the price for all homebuyers and tenants. Coordinated action can also make verification of code compliance standard practice in the home purchase process.

Available Federal Funding Will Further Lower Costs and Assist Compliance

The HUD-USDA preliminary determination finds that adopting the updated standards would not adversely affect the availability or affordability of homes under their purview. This conclusion is conservative because it does not account for the incremental first-cost reductions possible with new federal tax credits for ENERGY STAR and Zero Energy Ready Home certified new homes, all of which would exceed IECC 2021 levels. The largest manufactured home builder in the country, recognizing this

[1] Calculation derived from analysis of the National Survey of Mortgage Originations data.

opportunity, has already committed to building all new residences to Zero Energy Ready Home specifications by January 1, 2024. Forthcoming RMI analysis based on ENERGY STAR Cost & Savings Estimates suggests that particularly in the Southeast, the highest-volume region for new home construction, 45L tax credits for ENERGY STAR New Single-Family Homes reduce net first costs by up to $750 per unit compared to homes built to IECC 2021. Numerous states and energy utilities outside of the Southeast offer rebates or other incentives for energy-efficient new construction as well, and when stacked with 45L tax credits, they significantly expand the areas where ENERGY STAR new homes could become the least-cost option for builders.

Affordable access to Enterprise-guaranteed financing for new homes is threatened by risks from escalating hazard intensity and energy costs. FHFA must take action now to set modern energy codes for Enterprise-guaranteed new home mortgages, and in so doing will protect the financial stability of the Enterprises. Taking this step in conjunction with HUD, USDA, and VA will further lower costs for homebuyers and renters, especially those in underserved communities and with lower incomes.

The undersigned urge you to promptly direct the Enterprises to align with the updated code adoption proposed by HUD and USDA: IECC 2021 and Standard 90.1-2019. We look forward to the opportunity to meet with you and your team to discuss any questions you might have, as well as additional ways that FHFA can continue to deliver on its mission to safeguard housing finance and community investment in the face of growing climate-driven risks, and offer any assistance we can.

American Council for an Energy-Efficient Economy
ASHRAE
Earthjustice
Elevate
Enterprise Community Partners
Evergreen Action
Housing Assistance Council
Institute for Market Transformation
Local Initiatives Support Corporation
Midwest Energy Efficiency Alliance
National Consumer Law Center (on behalf of its low-income clients)
North American Insulation Manufacturers Association
Northeast Energy Efficiency and Electrification Council
NRDC
Rewiring America
RMI
Sierra Club
The Alliance to Save Energy
U.S. Green Building Council