Congress of the United States
Washington, DC 20515

July 25, 2018

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Dear Director Watt:

While the Federal Housing Finance Agency (FHFA) requires mortgages purchased by the GSEs to maintain property insurance coverage for most standard perils - including fire, windstorm, hail, theft, and flood where required - it does not have such a requirement for earthquake coverage.

Fannie Mae and Freddie Mac could find themselves holding tens of thousands of mortgages for destroyed properties without the proper coverage in place to handle claims for a catastrophic earthquake. Such a scenario would leave taxpayers unnecessarily exposed to tens of billions of dollars of earthquake risk.

Given this potential large-scale taxpayer exposure, we would like to get a better understanding of how the Agency is managing the GSEs' earthquake risk exposure while they are under conservatorship. Knowing the value you place on transparency and accountability, please answer the following questions in writing:

- Please provide a detailed analysis quantifying the GSEs exposure to earthquake risk, including its exposure at various probabilities (1-in-100, 1-in-250, and 1-in-500 return periods) in addition to an analysis of earthquake risk to the GSEs.

- What portion of the GSEs' mortgages have earthquake insurance coverage? How much of the loss would taxpayers assume in various earthquake scenarios? What is the impact of current levels of homeowner coverage in netting down the GSEs' gross risk?

- How are the GSEs managing earthquake risk? Have they fully explored what type of risk management techniques (e.g. risk reduction vs risk financing) offer the best value for homeowners and U.S. taxpayers and are they currently utilizing any of those risk management techniques?

- If the GSEs are not currently utilizing any risk management techniques, are they exploring various instruments and techniques to transfer risk to the private markets?

- How are the GSEs mitigating earthquake risk when a loan is originated? Do the GSEs require earthquake mitigation to be completed before a loan is accepted?

- What role do building codes have in mitigating earthquake risk and what portion of homes meet building codes standards relevant to earthquake risk? What portion of homes have been mitigated in accordance to building codes versus those not mitigated?

- Are the GSEs providing incentives homes that are retrofitted beyond standard building codes to reduce the risk? If so, how do those incentives and retrofit options vary by property type and by location?

We thank you for your attention to this matter and look forward to a timely response.

Sincerely,

U.S. Representative Sean Duffy
Chairman
Subcommittee on Housing and Insurance

U.S. Senator Tim Scott
Chairman
Subcommittee on Housing, Transportation, and Community Development