

Can the largest higher-rated global bond market achieve U.S. Treasury's high priority, statutory, non-discretionary private climate financing?

Stopping impending climate-driven Mortgage Insurance Crisis identified by U.S. Senate Budget Committee, & cascading climate impacts' threat to financial stability identified by U.S. Treasury

The purpose of this article is to show that large scale, global, available, higher-rated PRIVATE climate financing for the world's largest asset class, is ready to be rapidly deployed, and required to stop the impending systemic, climate-driven Mortgage Insurance Crisis documented by the U.S. Senate Budget Committee in 19 recent hearings. The Crisis can have cascading / contagion adverse impacts to financial stability identified by U.S. Treasury, predicted to be much worse than the 2008 Financial Crisis, but can be prevented with swift action stimulating the economy.

Why is Treasury's PRIVATE climate financing mandated by statute to preserve financial stability, non-discretionary?

The Dodd-Frank statute enacted in response to the 2008 Financial Crisis, names the Secretary of the Treasury as Financial Stability Oversight Council (FSOC) Chairman. Dodd-Frank requires Treasury to rapidly act to stop documented, systemic threats to U.S. financial stability that can cause another Financial Crisis, including FSOC's duty to:

"respond to emerging threats to the stability of the United States financial system. ..., monitor the financial services marketplace in order to identify potential threats to the financial stability of the United States ... [and] (I) to enhance the integrity, efficiency, competitiveness, and stability of United States financial markets; (II) to promote market discipline; and (III) to maintain investor confidence." ¹

Dodd-Frank makes no provision for Treasury within its discretion, to not act when there is a credible, imminent and documented threat to U.S. financial stability. To the contrary, it was enacted providing Treasury plenary power to protect U.S. financial stability when faced with imminent contagion / cascading impact threats. This includes harm to the real estate finance market comparable to subprime mortgages that caused the 2008 global Financial Crisis as determined by the Financial Crisis Inquiry Commission. The Fed calculated that \$20 trillion in household net worth was destroyed with an equal or greater amount for business. ² Congress clearly did not want a repeat of this highly destructive Crisis. Treasury is unequivocally directed by Dodd-Frank to *"respond to emerging threats to the stability of the United States financial system."*

Dodd-Frank and Treasury's high priority PRIVATE SECTOR climate financing program can ensure U.S. financial Stability to:

"Bring to bear the full force of the Treasury Department ... leveraging finance. Climate change requires economy-wide investments by industry ... as well as actions to ... mitigate climate-related risks to households, businesses, and our financial sector, [and] understanding and mitigating the risks that climate change poses to the stability of the U.S. and global financial system and economy." ³

Pursuant to Dodd-Frank, the Treasury Secretary is directed to address imminent threats with the statutory duty as Chairman, Financial Stability Oversight Council:

*"The Council is charged by statute with ... responding to emerging threats to the stability of the U.S. financial system. ... The Council ... mitigates risks to U.S. financial stability. In 2021, the Council identified three key priorities related to significant vulnerabilities in the financial system: nonbank financial intermediation, **climate-related financial risk**, and Treasury market resilience."* ⁴

Financial Stability Oversight Council (FSOC) identified climate as an increasing financial stability threat:

"Climate Change As An Emerging & Increasing Threat to Financial Stability. ... Established under the Dodd-Frank Wall Street Reform and Consumer Protection Act, FSOC is charged with identifying risks to U.S. financial stability, promoting market discipline, and responding to emerging threats to the stability of the U.S. financial system. ... Climate change is an emerging and increasing threat to America's financial system that requires action." ⁵

S&P, U.S. Treasury, South Florida leaders, and U.S. Senate Budget Committee financial stability threat warnings require action now. State of Florida was warned by S&P of a potential unprecedented adverse State credit rating downgrade if substantially more capital for accelerating coastal flooding protections was NOT deployed. However, the State has not acted. ⁶ S&P's threat to downgrade Florida's credit rating was consistent with the 3.0 national consensus resilience underwriting standard requiring minimum 2030 tidal coastal flooding protections for 2' and 10' for storm surge that allow insurability.

It's clear and convincing that the Secretary must act now given her March 7, 2023 remarks to Treasury's climate-related Financial Risk Advisory Committee published on Treasury's website:

*"In October 2021, FSOC [Financial Stability Oversight Council] published its Report on Climate-related Financial Risk. As you know, the FSOC for the first time identified climate change as an emerging and increasing threat to U.S. financial stability. **The report stated that climate change will likely become a source of shocks to the financial system in the coming years. As climate change intensifies, natural disasters and warming temperatures can lead to declines in asset values that could cascade through the financial system.***

These impacts are not hypothetical. They are already playing out. In the United States, there's been at least a five-fold increase in the annual number of billion-dollar disasters over the past five years compared to the 1980s, even after adjusting for inflation. States like California, Florida, and Louisiana recently have seen especially severe storms and wildfires. And recent devastating tornadoes across the South and intensifying storms on the West Coast are reminders of how climate change is accelerating.

In addition to the terrible toll of these disasters on individuals and families, the economic and financial impacts of these events are significant. ***For example, in response to rising insured losses, some insurers are raising rates or even pulling back from high-risk areas. This has potentially devastating consequences for homeowners and their property values. Developments like these can spill over to other parts of our interconnected financial system.***

Taking climate change into account is prudent risk management. Our work builds on the scientific consensus regarding the projected effects of climate change and is based on a widely accepted understanding of how the financial system works. (emphasis added)

Treasury top management including Chairman, Inspector Generals' Financial Stability Oversight Council created by Dodd-Frank, were repeatedly warned in writing from June 30-July 27, 2023 of the impending collapse of W. Antarctic glaciers and resulting increased coastal flooding, including by expert representatives of the City of South Miami and University of Miami. The warnings stated that South Florida's risk is acute due to porous bedrock preventing permanent engineering solutions.⁷ This collapse is based on 29 years of NASA Jet Propulsion Lab (JPL) and EU ice-penetrating aerial imagery and ocean bottom waters 3.6°F above freezing at the grounding line interface of ice, ocean and bedrock. NASA JPL stated the melt at the Thwaites Glacier was *"explosive & disturbing,"* with Thwaites as the largest long-term contributor to global sea level rise flooding. Historical data show the rise is expected to be rapid and not gradual.⁸

The roughly \$1 trillion in South Florida coastal real estate can become worthless at any time (stranded from sea level rise flooding) *"as a grenade to South Florida's economy,"* stated publicly in 2020 by the leading expert of South Florida's real estate financing market, a multi-state developer and Chairman, South Florida Urban Land Institute (ULI). ULI is an I.R.C. §501(c)(3) nonprofit of leading real estate finance experts.⁹ Sunny day sea level rise flooding is endemic and accelerating in S. Florida for many years reported by local, national, and global media sources.

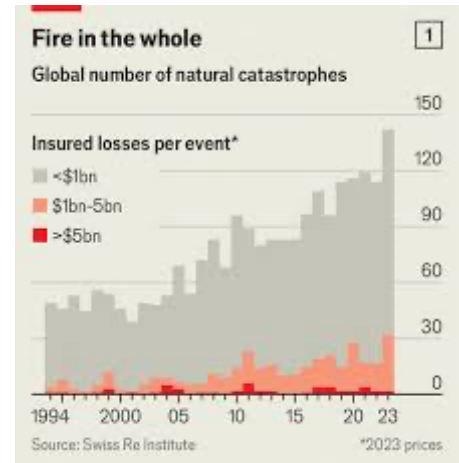
U.S. Senate Budget Committee in 19 recent hearings, showed insurers are dangerously pulling out mortgage coverage and dramatically raising prices due to unacceptable climate risk, emphasizing in June-July 2024 Mortgage Crisis Hearings:

- More than half of all U.S. properties have wildfire risks, and all coastal properties have flooding risks.
- *"This isn't all that complicated. Climate risk makes things uninsurable. No insurance makes things unmortgageable. No mortgages crashes the property markets. Crashed property markets trashes the economy."*
- The 2008 Financial Crisis drove the deficit up by \$5 trillion and the Mortgage Insurance Crisis is expected to drive it much, much higher.
- Bi-partisan support for a global climate / mortgage insurance solution.

Seven of the top 12 carriers have pulled out of California taking 35% of the market according to *National Mortgage Professional*.¹⁰ California's and Florida's more expensive "Fair Plan" insurers of last resort have insolvency problems. *"It's self-evident that [climate risks] caused increases that consumers weren't aware of or prepared for."* Alec Hanson, Chief Marketing Officer, loanDepot.¹¹ States are futilely begging insurers not to pull out of markets, but State Farm and Allstate recently withdrew from California, Farmers from Florida, and Progressive from Texas. Florida's mortgage insurance costs doubled recently, now averaging \$10,000 / yr., and almost \$17,000 / yr. in Miami. *Bankrate* reports that since 2017, 10 carriers liquidated in Florida, nevertheless, Florida and California's mass exodus of insurance companies are not the only States insurance companies are pulling out of. Homeowners in Massachusetts, Louisiana, Colorado, Minnesota, Arkansas, Nebraska and Oklahoma may also struggle to find a policy.¹²

Driving insurers' mortgage market exodus, they paid out an accelerating, untenable \$150 billion in climate losses last year, with reinsurers cutting-back coverage reducing their losses by 10%.¹³ This is not a surprise since 19 Insurance Chief Risk Officers reported in 2006 that without a climate solution, it will be the end of private insurance.¹⁴ See April 11, 2024 Economist graph of insurers' 29 years of significantly rising climate-induced losses covered at the Sept. 12, 2024 Senate Budget Committee Hearing.¹⁵

Without mortgage insurance, most Americans can't own a home, and this rapidly-increasing insurance unavailability and unaffordability were shown by U.S. Treasury on Mar. 7, 2023, to trigger at any time now, financial contagion and an impending global economic meltdown.



Why is Treasury large scale PRIVATE climate financing or equivalent needed to solve the climate-driven Mortgage Insurance Crisis? There is too much carbon pollution required to be reduced by 2030 due to accelerating releases and its latent effect in the atmosphere where it resides for many years before breaking down. About an 840 gigaton / \$30 trillion carbon pollution reduction is required to achieve IPCC's 2030 Deadline, double IPCC's calculation several years ago due to positive feedback loops / accelerators like wildfire pollution and methane releases from melting permafrost.

Accordingly, at the September 2024 Climate Week in NYC, McKinsey reported that climate finance must go big or go home. *"It's not just speed that we're looking for,"* said Mark Patel, a senior partner at McKinsey in San Francisco who focuses on climate-related technologies. *"We need to intentionally seek greater and greater scale. We need to motivate ourselves to go faster and go bigger."*¹⁶

Why won't the large-scale climate litigation solve the Crisis? The some 30 State, city, and county climate suits against big oil have too much uncertainty in their outcomes and timing, including if the outcomes would reduce the large scale carbon pollution required to stop the Crisis.

Why has government finally concluded that large scale PRIVATE financing is required to solve the Crisis? Reinforcing the high priority of Treasury's announced private sector financing program, White House UN Special Climate Envoy John Kerry speaking on the private sector Climate Crisis leadership need in Pittsburgh on Sept. 22, 2022 finally announced:

- ***The Governments of the world have neither the will nor money to solve the Climate Crisis.***¹⁷

Twenty-nine annual UN government conferences of the parties have failed with carbon pollution greatly accelerating. The last carbon tax as a recognized solution, and proposed for Congress, contained a big oil condition that any big oil climate liability would be erased. U.S. Conference of Mayors' strong opposition to the condition killed the proposal.

Why are short-term market means to solve the Mortgage Insurance Crisis ineffective? Former California Insurance Commissioner Dave Jones, an attorney and the foremost expert on this climate-driven Mortgage Insurance Crisis, emphasized that the priority must be a global climate solution:

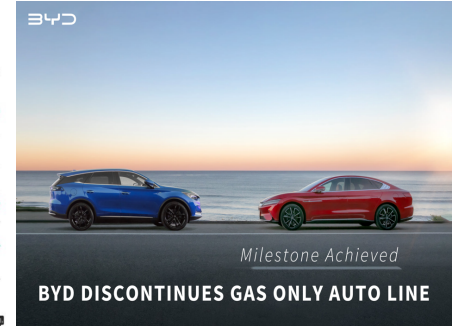
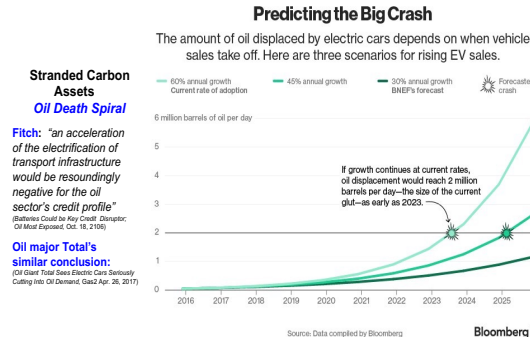
*"Due to the failure to substantially reduce greenhouse-gas emissions in the U.S. and globally, we are marching steadily to an uninsurable future."*¹⁸

*"[While proposed] policy and regulatory interventions might help in the short run, they're likely to be overwhelmed by the increasing risk and loss."*¹⁹

Why has Treasury's required large scale private climate financing been blocked? *Even though Treasury's non-discretionary duty to act has been blocked by the following factors, this illusory statutory priority demonstrates the urgent need for PRIVATE SECTOR leadership:*

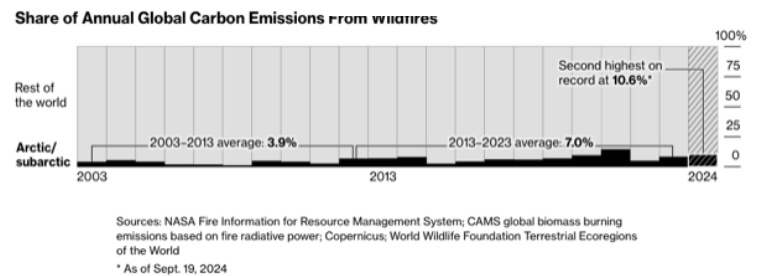
- Political chaos resulting in the Aug. 1, 2023 U.S. credit rating downgrade for *"erosion of governance."*
- Complexity and government inexperience in largest global, private financing market.

- Inherent controversial nature of solutions reducing the world's largest fossil fuel market share with highly disruptive green / sustainable technologies:



What are large scale private climate financing means and why is the capital markets required to rapidly deploy the substantial, available investor assets? In order to rapidly deploy the calculated and available \$70 trillion in investor assets, highly repeatable bonds and stocks must be available to hundreds of thousands of global issuers and be financially attractive, e.g., higher-rated. ²⁰ This is the rapid, large scale private finance referred to by McKinsey at September 2024 NYC Climate Week. Ready to be launched global higher-rated green property bonds and green initial public offerings (IPOs) are two such very large global financial markets with hundreds of thousands of global issuers that can timely reduce the required carbon pollution. ²¹

How much accelerating carbon pollution is required to be reduced to solve the Crisis pursuant to the Intergovernmental Panel on Climate Change's (IPCC) 2030 Deadline? The Deadline requires a 43% reduction in global carbon pollution as 420 gigatons. ²² As previously noted, the Deadline does not include positive feedback loops / accelerators like wildfire pollution and powerful methane releases from melting permafrost and ocean hydrates, thus about an 840 gigaton / \$30 trillion reduction is needed by 2030. In the above graph, NASA calculated that carbon pollution from wildfire is about 7% of total global carbon pollution. Showing that the Crisis is greatly accelerating, only about a \$5 trillion reduction was required in 2005. ²³



Why are higher-rated global bonds for the largest global market relevant, financially attractive, and can rapidly achieve the required large scale carbon pollution reduction? Higher credit ratings were secured for the world's largest bond financing market that can rapidly deploy the available \$70 trillion in investor assets for carbon pollution reduction. ²⁴ The Investor Network on Climate Risk has about \$50 trillion in assets and will buy these bonds as determined by investor expression of interest letters. ²⁵

The building industry is the world's largest and it's common knowledge that it generates about 60% of global carbon pollution with the greatest energy use and most structures. Investor mortgage financing for property owners has been a traditional financing method since 1986 when the commercial mortgage-backed security (CMBS) market was started by the Phase 1 environmental site assessment standard providing a defense to environmental cleanup liability for owners and secured creditors. Rapid Phase 1 adoption by CMBS, unfroze the commercial real estate market from severe hazardous substance cleanup liability. The Phase 1 has been required for commercial real estate transactions including CMBS today, was approved by EPA, and drove CMBS to a \$trillion global industry in about 10 years. ²⁶

How were the higher credit ratings achieved for the largest global market and under what SEC conditions? Higher credit ratings for this largest global bond finance market were secured by 10 years of positive statistical data for the U.S. market, plus consensus underwriting standards measuring increased cashflow. ²⁷

SEC requires that consensus standards be used in higher ratings because they are transparent, non-proprietary, publicly available, democratically-approved, and prevent due process, antitrust and restraint of trade liability. To protect investors,

credit ratings are required for these publicly-traded bonds available to the hundreds of thousands of green building owners globally. The higher-ratings provide about 1% cheaper capital, and higher appraised value averaging about \$120 million each for the some 100 largest global building portfolio owners.²⁸

Green buildings are a cost of business globally with many hundreds of thousands certified in N. America, W. Europe, India, China and Australia with the LEED standard adopted by 18 federal agencies, 34 States, over 200 cities and 200 universities, 64 countries, and about 80% of the world's largest building portfolio owners.²⁹ Green buildings by far are the world's largest sustainability market, more than double the combined annual revenue of global wind, solar, and electric vehicles.³⁰

The higher-rated bonds provide globally for these owners as required by the approved higher-ratings tapes:

- The most credit for zero operating emissions, onsite wind, solar, high energy efficiency that all increase cashflow, and 5%-15% property insurance discounts based on Fireman's Fund's Allianz improved LEED property loss ratios.
- A documented global financial market to rapidly deploy the available \$70 trillion in investor assets achieving IPCC's 2030 Deadline.
- ***A powerful incentive to conventional owners globally to certify so they don't pay more and be worth less.***

Large scale bond issuer commitment, and top five insurer interest in the solution. A top five global insurer is considering launching the bonds with a committed \$15 billion green building portfolio owner. The insurer has a 127 large LEED building portfolio with \$160 million added appraised value from the higher ratings. CMBS and LEED explosive global growth is successful precedent, with greater stimulus from today's higher ratings and financial stability need. The bonds can easily be Green + Resilient with the 3.0 national consensus resilience underwriting standard measuring increased cashflow from resilience. There is a rational basis that this financing can achieve IPCC's 2030 Deadline and stop the impending climate-driven Mortgage Insurance Crisis.³¹

¹ Sections 111, 112 relating to FSOC, and the purpose of Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111–203, as Amended through P.L. 117–286, Enacted December 27, 2022

² *Life of a Debt*, Federal Reserve Bank of Philadelphia, at 3 (June 6, 2013).

³ Treasury Announces Coordinate Climate Strategy (Apr. 19, 2021).

⁴ Duties of the Financial Stability Oversight Council on Treasury's website. (emphasis added).

⁵ Treasury press release (Oct. 21, 2021)

⁶ FL 2021 Debt Report at 5

⁷ https://www.capitalmarketspartnership.com/files/ugd/9f3072_70dc627067bc4f2b912730ab7904549b.pdf

⁸ See the NASA JPL Thwaites Glacier Collapse Schematic transmitted to Treasury top management as published by 26 news entities:

https://www.capitalmarketspartnership.com/files/ugd/9f3072_9c713b6c927241b49e7bbf3052e145df.pdf

⁹ "New South Florida Climate Change Financial Report: Spend Billions Or Lose Much, Much More," WUSF Public Media - WUSF 89.7 | By Alex Harris - Miami Herald, published October 17, 2020 at 8:00 AM EDT

¹⁰ Home Insurers Enact Scorched-Earth Policy (July 8, 2024)

¹¹ *Id.*

¹² "Can lawmakers save the collapsing Florida home insurance market?" (Sept. 19, 2023)

¹³ "Natural disasters to cost insurers \$151 billion per year." Fortune (Sept. 3, 2024)

¹⁴ CRO briefing Emerging Risk Initiative – Position Paper at 2,10 (June 2006)

¹⁵ "Homeowners face a \$25trn bill from Climate Change. Property, the world's biggest asset class, is also its most vulnerable," Economist (Apr. 11, 2024)

¹⁶ "In Pittsburgh, John Kerry says climate change solutions will be driven by private sector." NPR State (Sept. 22, 2022)

¹⁷ Barrons (July 20, 2023)

¹⁸ "States beg insurers not to drop climate-threatened homes," Iowa Capital Dispatch, June 16, 2024)

¹⁹ Remarks of former S&P Global Ratings Head Vickie Tillman, at 2015 Green Bond Business Case Summit at TIAA in NYC

²⁰ Peer-reviewed and updated Green Bond Business Case released at NYSE by JPMorgan and Sierra Club (2015)

²¹ "We can halve emissions by 2030" (IPCC Apr. 4, 2022)

²² Green Bond Business Case 2009.

²³ Higher ratings tapes of leading bank underwriter and global rating agency (2018)

²⁴ Green Bond Business Case (2015)

²⁵ *Id.* 2009

²⁶ https://www.capitalmarketspartnership.com/files/ugd/9f3072_5f2bd1350242434d91d86cdd515b099.pdf https://www.capitalmarketspartnership.com/files/ugd/9f3072_0f48563cbb2345509df024a7d65715ce.pdf

²⁷ Data from the companies' websites and Green Building Information Gateway (2024); the 2009 EU sovereign debt crisis showed that a credit rating increase averaged about a 1% increase in financial value. See, e.g., *Credit ratings and the pricing of sovereign debt during the Euro crisis*, National Bureau of Economic Research (June 2013).

²⁸ U.S. Green Building Council (2014-2024)

²⁹ Peer-reviewed and updated Green Bond Business Case released at NYSE by JPMorgan and Sierra Club (2018)

³⁰ https://www.capitalmarketspartnership.com/files/ugd/9f3072_408578304f17469782753638b52da42a.pdf