May 17, 2023

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Enterprise Single-Family Social Bond Policy Request for Input

Dear Director Thompson,

The Mortgage Bankers Association[1] (MBA) appreciates the Federal Housing Finance Agency's (FHFA) continued focus on Environmental, Social, and Governance (ESG) initiatives and we welcome the opportunity to provide feedback in response to the Request for Information (RFI) on Enterprise Single-Family Social Bond Policy. ESG investing continues to gain popularity as a way for investors to align investment decisions with their goals and values. MBA believes that when executed effectively, ESG investing holds promise for attracting new investors and stronger pricing that could support more development and financing of sustainable and socially responsible housing while also upholding the safety and soundness of Fannie Mae and Freddie Mac (the Enterprises).

Outcomes, Borrower Benefit, and Reporting

MBA believes a well-executed social bond program should have clearly defined benefits and goals that are closely monitored and reported to industry stakeholders to fully assess the impact of the program. In other words, are labeled social bonds resulting in increased liquidity and better pricing for targeted borrowers and developments? Social bonds with certain performance characteristics may garner pay-ups, much like the current specified pool market. Lenders should receive accruals from pay-ups so this benefit can ultimately flow through to the borrower. MBA encourages FHFA and the Enterprises to engage with

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,100 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

industry stakeholders to determine the best ways to maximize these benefits, minimize cost burdens, and measure the outcomes.

A social bond program could be a valuable addition to the mortgage securitization landscape, however, the full scope of impacts to the current specified pool and To-Be-Announced (TBA) markets is not known. MBA encourages FHFA to roll out any social bond program in a measured manner to ensure there are no shocks to these existing markets that could negatively impact broader market liquidity. Any future social bond policy should include a requirement to closely monitor and regularly report any observed changes to these markets and to adjust the program accordingly.

Eligible Loans

Substantial work on ESG and Social Bond Policy has been conducted by the Mortgage Industry Standards Maintenance Organization (MISMO) which is a subsidiary of the MBA. MISMO brings value to the mortgage finance industry by enhancing the interoperability of systems, improving efficiency, reducing costs, and accelerating the ongoing digital transformation of our industry. MISMO serves many players in the mortgage industry including lenders, servicers, investors, the Enterprises, and regulators. MISMO helps the mortgage industry tackle operational and implementation challenges through collaboration and industry standards.

MISMO established its ESG Community of Practice (CoP) to discuss the effects of ESG investing on the mortgage industry. Over the course of the past year, this group has set out to determine which data *already in use* in the industry could be used to define ESG investing. The working group reviewed existing FHFA, Ginnie Mae, trade group, and think tank social impact pool indicators with the aim of arriving at a concise set of priority categories pertaining to loans, properties, lenders, servicers, and borrowers. The five resulting categories determined by the working group were significantly influenced by the Urban Institute's Five-Point Framework for Reducing the Racial Homeownership Gap[2] due to its inclusivity, broad market applicability, and transferability to social lending.

1	Local, State, or Federal Government Lending Program Qualification	Indicators that loans were issued at favorable terms through government programs aimed to develop underserved communities.
2	Affordable Supply Preservation or Creation	Indicators of efforts to expand the supply of affordable housing and direct investment to devalued neighborhoods.
3	Credit Access Expansion or Underwriting Innovation	Indicators of efforts to promote affordability and access to fair credit for historically underserved populations.

[2] https://www.urban.org/policy-centers/housing-finance-policy-center/projects/reducing-racial-homeownership-gap/five-point-framework

4	Financial Education or First-Time Homebuyer	Indicators of programs that incentivize first-time homebuyers and prepare mortgage-ready millennials for homeownership through financial education and housing counseling.
5	Post-Closing Sustainable Homeownership or Preservation	Indicators of programs to support stable homeownership and prevent foreclosure for low- and moderate-income families.

Through research and industry collaboration, the working group has started the process of creating a framework to identify loan-level data fields as social impact indicators. MBA believes the industry needs a credible and consistent approach for labeling pools or securities as "social" using existing data to the greatest extent possible. Without meaningful, concrete standards, investors and market participants experience challenges making informed decisions. MISMO standards include industry standardized definitions to over 4,000 data points used across the mortgage loan life cycle and their framework can serve as a primary resource for those participating in the social bond space. MISMO plans to finalize this framework and release it for public comment in Q2 2023.

Disclosures and Borrower Reidentification

MBA recommends that any social bond policy should carefully consider impacts to borrower privacy and take necessary steps to mitigate the risk of borrower reidentification. MBA members are strong proponents of protecting consumer data and privacy. While protecting consumer data is a cornerstone of the trust customers place in those with whom they do business, data disclosures are also an essential need for investors seeking identify securities that meet their need for social investing. Any future social bond policy should appropriately balance borrower privacy with adequate data disclosure for investors. Should it be determined that additional disclosures are required for a social bond program we urge FHFA to carefully consider and minimize any potential costs lenders may incur. While the need for sufficient data is understandable, if this process becomes overly costly or burdensome for lenders it could erode or erase the benefits to borrowers and communities.

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MBA believes labeled Enterprise single-family social bonds have the potential to positively impact borrowers, particularly those in underserved communities, and could be an effective way to support mission focused lending. As policy in this area is developed, we encourage FHFA and the Enterprises to ensure borrower benefits are clearly defined, closely monitored, and reported. Criteria for the qualifying loans should also be clearly defined and tied to industry data standards as outlined in the MISMO framework currently under development. Lastly, data disclosure should be appropriately balanced to protect borrower privacy while allowing investors to accurately identify social criteria.

MBA appreciates your consideration of our comments on this request for information. We look forward to the opportunity to meet and discuss our feedback and invite you to collaborate with the MISMO ESG Community of Practice as they continue to develop their Social Bond Framework. Should you have any questions or wish to discuss any aspects of these comments, please contact Sasha Hewlett (shewlett@mba.org) or Jan Davis (jdavis@mba.org).

Sincerely,

Pete Mills
Senior Vice President
Residential Policy and Strategic Industry Engagement
Mortgage Bankers Association