American Bankers Association.

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The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 Seventh Street, SW
Washington, DC 20515

Dear Director Thompson:

The American Bankers Association is pleased to offer comments in response to the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on an Enterprise Single-Family Social Bond policy.[1]

With the growing interest among investors and others in Environmental, Social and Governance (ESG) related issues, it is reasonable for FHFA to consider the development of a single-family social bond policy for Fannie Mae and Freddie Mac (the Enterprises or GSEs). We appreciate FHFA's attention to this matter and the issuance of an RFI as an important initial step. However, at this early stage, providing detailed input from the primary market perspective is difficult. Input from affordable housing advocates and investor groups will be essential to help frame the outline of any potential social bond program and we would be pleased to provide further comment on such an outline once set forth. Our comments here, therefore, are directed more generally toward considerations that FHFA should take if it chooses to proceed further.

Even though ESG investing has existed in one form or another for some time, it remains controversial due to a lack of agreed upon taxonomy and metrics as well as a limited understanding and agreement about the goals and motivations driving ESG efforts. The result has been a highly charged political environment around ESG-related issues that has intensified in recent years. Therefore, we believe it is important that FHFA proceed cautiously when considering developing any single-family social bond program.

As recent reactions to the Loan Level Pricing Adjustments have shown, government-directed efforts to achieve social outcomes can be very controversial, especially if they are not well articulated or well understood. And they can be misconstrued. A single-family social bond program could elicit the same (or greater) levels of controversy unless it is developed transparently and with broad public input that is provided through notice and comment, as well as public hearings. We would encourage FHFA to undertake a rigorous development and vetting process not unlike the effort that went into the creation of the Uniform Mortgage-Backed Security (UMBS).

Moreover, some may already consider all GSE bonds to be social bonds, given that the mission of the GSEs is to advance access to affordable mortgage credit for low- and moderate-income borrowers. The payments received by the GSEs from the sale of UMBS establish a broad, stable, and liquid secondary market that vastly expands the availability of mortgage credit for low- and moderate-income borrowers. Social bonds could undermine the functioning of the secondary market if they incentivize the GSEs or other market participants to purchase or price

[1] https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/RFI-Enterprise-SF-Social-Bond-Policy.pdf

certain loans over others based upon their attractiveness for a social bond. Disruption to the fungibility of UMBS or to the functioning of the broader To Be Announced (TBA) market would undermine the entire secondary mortgage market. That must be avoided.

The RFI poses questions about whether additional funds resulting from investors paying higher prices for social bonds should be used to provide benefits directly to underserved or Low and Moderate Income (LMI) borrowers whose loans are placed in the social bond, or to fund special purpose credit programs, Housing Trust Funds, or other, unspecified potential new programs. The RFI also seeks input on how borrower impact should be measured and reported. We cannot currently answer those questions. We will, however, be interested in the responses of others to the RFI, including those from affordable housing advocates and investor groups among others, which may help to inform a possible path for FHFA. We believe that if FHFA wishes to pursue this course, it should develop a specific proposal to which the public can respond through notice and comment. Further, in that proposal, FHFA must clearly articulate how the social bond programs will align and complement existing programs or requirements such as the Affordable Housing Goals, Equitable Housing Plans, the Housing Trust Funds, or similar programs. In addition, FHFA should consider initially offering such a proposal as a demonstration or trial effort after full notice and comment.

As suggested by the RFI, the benefits generated by social bonds could be delivered through those programs. If so, that alignment must enhance both the offering to investors and understanding and acceptance by other stakeholders.

Investor interest in social bonds may be a lucrative and attractive mechanism for the GSEs to further their mission. However, investor interest may not align with the mandates of the GSEs (and FHFA); so great care must be taken to ensure that any social bond program is clearly defined, aligned with the statutory mandates of the GSEs and FHFA, and is understood by all stakeholders and the public. ABA looks forward to continuing to work with FHFA and the GSEs to advance the important work of expanding affordable, safe and sound mortgage credit. Thank you.

Sincerely,

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Regulatory Compliance and Policy