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May 17, 2023

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20024

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

Dear Director Thompson:

The Credit Union National Association (CUNA) represents America's credit unions and their more than 135 million members. On behalf of our members, we are writing in response to the Federal Housing Finance Agency's (FHFA's) Enterprise Single-Family Social Bond Policy Request for Input.¹ Our members specifically wanted to provide input on desired impacts for a social bond program, attributes for determining eligibility for a social bond pool, and whether loan eligibility for sale to a social bond pool should be determined before origination or after funding.²

Background

Social bonds have been defined as "use of proceed bonds that raise funds for new and existing projects with positive social outcomes."³ Neither the Federal National Mortgage Association (FNMA) nor the Federal Home Loan Mortgage Corporation (FHLMC) (collectively, the Enterprises or GSEs) issue single-family social bonds at this time,⁴ but they do have experience with social bonds for other types of products. The Enterprises both issue social bonds for multifamily loans,⁵ and they both "issue single-family affordable bonds that are comprised of loans originated under each Enterprise's affordable loan products."⁶

¹ Enterprise Single-Family Social Bond Policy Request for Input (Social Bond RFI), FHFA (Feb. 2023), *available at* <https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/RFI-Enterprise-SF-Social-Bond-Policy.pdf>.

² *See id.* at 7-8 (paraphrasing questions A-1, B-1, and B-3).

³ Social Bond Principles, Int'l Capital Market Ass'n, *available at* <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>.

⁴ Social Bond RFI at 6.

⁵ *See id.* at 6-7 (noting that FHLMC's Social Bonds Framework and FNMA's Sustainable Bond Framework, both multifamily social bonds, had been in place since 2020 and 2021, respectively).

⁶ *Id.* at 7.

Moreover, the Enterprises have implemented single-family social disclosures.⁷ Those single-family social disclosures “were designed in response to investor demand and aim to provide insights into the socially oriented lending activities supported by the Enterprises while helping to preserve the confidentiality of borrowers’ personal information.”⁸ The social disclosures provide insight into income, borrower, and property characteristics that ultimately result in two different social indices measuring distribution and density of the specified social criteria within a given pool.⁹

In the context of the Enterprises’ mortgage-backed securities, investors have paid premiums for pools of loans with certain prepayment properties such as those loans that prepay more slowly over time.¹⁰ This premium—also referred to as a “pay-up”—can depend on the market,¹¹ but it has been noted that investors have been paying up for the Enterprises’ single-family affordable bonds.¹² Loans that are less likely to be paid in full before their maturity date can offer investors interest payments for longer periods of time than a loan that is more likely to prepay.¹³ For those investors who consider environmental, social, and governance (ESG) factors when making their investment decisions, social bonds, including any future single-family social bonds, could provide those ESG investors with opportunities to achieve their investment objectives.¹⁴

Credit Unions’ Purpose Dovetails With Desired Program Outcomes and Borrower Impacts for an Enterprise Single-Family Social Bond Program

Credit unions are not-for-profit, financial cooperatives that have a specified mission “to meet the credit and savings needs of consumers, especially persons of modest means.”¹⁵ As such, they are concerned with promoting many of the same social program impacts identified in the Social Bond RFI, including member education and counseling, affordability, and equity.¹⁶ Our credit union members have expressed the desire to explore how their lending activity can advance the borrower and social impacts that will be central to any single-family social bond program. A key factor in assessing credit unions’ potential partnership depends on which loans are eligible to be part of the social bond program.

⁷ See Single-Family Social Index, FNMA, *available at* <https://capitalmarkets.fanniemae.com/single-family-social-index> (explaining that they were implemented in November 2022); Freddie Mac Beings Publishing Social Index Disclosures, FHLMC (Dec. 2, 2022), *available at* <https://capitalmarkets.freddiemac.com/mbs/docs/f421news.pdf>.

⁸ Social Bond RFI at 7.

⁹ *See id.* (describing the design of the social indices), *available at* <https://www.fanniemae.com/media/44446/display>.

¹⁰ Social Bond RFI at 4.

¹¹ Laurie Goodman and Janneke Ratcliffe, *Policy Thoughts about Single-Family Mortgage Social Bonds*, Urban Institute (March 27, 2023), *available at* <https://www.urban.org/research/publication/policy-thoughts-about-single-family-mortgage-social-bonds>.

¹² *Id.*

¹³ *Id.*

¹⁴ Social Bond RFA at 4-5.

¹⁵ *Credit Union Membership Access Act*, Pub. L. No. 105-219, § 2(4), 112 Stat. 913, 914 (1998).

¹⁶ Social Bond RFI at 5.

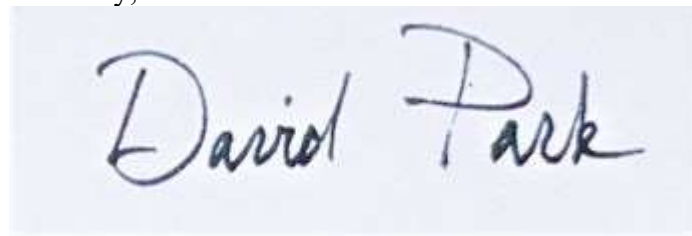
Credit Union Loans That Can Be Sold to the Enterprises Should be Eligible for Any Enterprise Single-Family Social Bond Program

As expressed above, many of the social impacts and objectives that may be promoted by any single-family social bond program will overlap with the statutory mission of credit unions. To the extent a loan originated by a credit union is eligible for sale as a single-family loan to the Enterprises and has characteristics that can be used to place it in a single-family social bond pool, classifying that loan as one that is eligible for a single-family social bond program potentially increases the positive impacts of a single-family social bond program. For example, credit unions have noted that they may be able to enhance liquidity if loans that they originate to advance relevant social impacts and objectives can be included in the social bond program. As the Enterprises continue to pilot special purpose credit program (SPCP) initiatives,¹⁷ credit unions who originate loans through SPCPs that satisfy the Enterprises' criteria can enhance liquidity and pass those benefits on to their members.¹⁸ Credit unions, however, seemed skeptical about their ability to identify a social bond-eligible loan prior to funding because of the uncertainty of whether a loan would actually fund, especially in the current environment. By ensuring that all loans originated by credit unions and eligible for sale to the Enterprises through their single-family programs may be eligible for a social bond program, credit unions can serve as important partners in any single-family social bond program.

Conclusion

Thank you for this opportunity to provide input on the Enterprise Single-Family Social Bond Policy Request for Input. If you have questions or if we can be of any assistance, please do not hesitate to contact me at (202) 603-1985 or dpark@cuna.coop.

Sincerely,

A handwritten signature in blue ink that reads "David Park". The signature is written in a cursive, slightly slanted style. The background is a light blue rectangular area.

David Park
Senior Director of Advocacy & Counsel

¹⁷ See generally FNMA Equitable Housing Finance Plan 2023 (describing SPCP pilot programs), available at <https://www.fanniemae.com/media/46631/display>; FHLMC Equitable Housing Finance Plan (April 2023) (same), available at <https://www.freddie-mac.com/about/pdf/2023-Freddie-Mac-Equitable-Housing-Finance-Plan.pdf>.

¹⁸ See Goodman & Ratcliffe, *supra* note 11, at 3 (explaining the potential benefits to borrowers for smaller loans from pay-ups in the secondary market).