NCSHA

National Council *of*
State Housing Agencies

May 17, 2023

Ms. Sandra Thompson
Director
Federal Housing Finance Agency
400 Seventh Street SW
10th Floor
Washington D.C. 20219

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

Dear Director Thompson:

The National Council of State Housing Agencies (NCSHA),[1] on behalf of the nation's state housing finance agencies (HFAs), thanks you for the opportunity to submit comments on the Federal Housing Finance Agency's (FHFA) February 16 request for input on the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac's policies toward social bonds. NCSHA believes there could be advantages to the GSEs issuing single-family mortgage securities that are classified as social bonds under the framework for Environmental, Social, and Governance (ESG) securities. We also believe the GSEs should work with HFAs as they develop and experiment with ESG programs, and HFA-financed loans should qualify for inclusion in any social bonds or ESG securities the GSEs issue.

We thank FHFA for exploring this issue further. At a time when homeownership is growing increasingly out of reach for working families, it is crucial to expand the funding options for mortgage loans. Given the GSEs' substantial and influential role in the home purchase loan market, GSE-issued single-family ESG securities could serve as a critical source of liquidity for home purchase loans to low- and moderate-income households while helping to develop a strong market for single-family ESG securities. A strong market for these securities could then lead to better pricing and increased affordability for low- and moderate-income home buyers.

[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

We strongly encourage FHFA to continue working with Fannie Mae and Freddie Mac to develop a policy that will allow them to issue single-family social bonds that meet the ESG rubric. For this initiative to be successful, clear standards will have to be developed so lenders, investors, issuers, and other interested parties understand what loans are eligible to be included in ESG securities.

Structuring a single-family social bond that effectively attracts investor interest, supports affordable homeownership, and does not significantly impact the financial health of the GSEs will likely require some experimentation by the GSEs to test different approaches and identify what works best. We believe that state HFAs would be a natural partner with the GSEs' in any pilot initiative or other exploratory effort.

State HFAs are at the center of the nation's affordable housing delivery system and are focused on meeting the affordable mortgage finance needs of the low- and moderate-income homebuyers. To fund their affordable homeownership programs, HFAs issue tax exempt mortgage revenue bonds (MRBs). MRBs are used to fund mortgages to low- and moderate-income households, with the investor receiving the homeowners' mortgage and interest payments in return. HFAs fund their programs through non-bond sources, accessing the to-be-announced market and selling mortgage-backed securities (MBS).

Whether through MRB or non-MRB sources, HFAs have succeeded at accessing financing for single-family lending that is targeted toward lower-income and underserved households. Over the years, HFAs have proven adept at structing their issuances to meet the needs of the markets and secure advantageous pricing that helps them serve more homebuyers. For example, because the LMI households HFAs serve are generally less likely to pre-pay their mortgage off in full before the loan expires, investors are often willing to pay a premium for HFA MBS to account for the reduced prepayment risk.

In addition, HFA programs currently serve the same consumers the GSEs would be looking to assist through their ESG securities. More than three quarters (78 percent) of all state HFA home loans in 2022 went to borrowers earning at or below area median income. The median borrower income for all state HFA program loans in 2020 was $48,772. The national average purchase price of HFA program loans in that year was $189,740. This is well below the conforming loan limit of that year and underscores the way HFA activities reflect and serve their affordable housing mission. Thirty four percent of HFA program loans went to people of color and 38 percent to female-headed households.

Because of this track record, both GSEs currently offer special products specifically for loans originated through HFA programs. The products, HFA Preferred for Fannie Mae and HFA Advantage for Freddie Mac, include substantial pricing discounts, most notably the waiving of loan-level pricing adjustments (LLPAs) and allowing low-income borrowers to purchase the "charter minimum" level of private mortgage insurance (PMI) of 18 percent. In 2021, when Fannie Mae and Freddie Mac started to issue single-family bonds comprised of loans originated through their affordable lending programs (though these do not qualify as ESG bonds), loans from their HFA products were included.

Given their experience with the secondary markets, public mission, and strong partnerships with the GSEs, HFAs would be an ideal choice to partner with the GSEs to develop and experiment with ESG programs. The mission focus of HFAs and the public benefits of their loan financing activities suggest that the loans they finance should qualify for inclusion in any social bonds or ESG securities the GSEs issue. We are happy to work with you further on this if you wish.

Thank you for taking the time to read our recommendations. Feel free to reach out to me to discuss this further at any time.

Sincerely,

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives