PIMCO

Via Electronic Submission

May 17, 2023

Federal Housing Finance Agency
Office of Fair Lending
Washington, D.C. 20219

Re: Request for Input, Enterprise Single-Family Social Bond Policy

To Whom It May Concern:

Thank you for inviting public input on the Federal Housing Finance Agency ("FHFA") *Enterprise Single-Family Social Bond Policy.*[1] We appreciate the opportunity to provide comment, and we do so in the capacity as one of the largest investors in Fannie Mae ("Fannie") and Freddie Mac ("Freddie") (collectively, the "Enterprises" or "Agencies") mortgage backed-securities ("MBS") and non-Agency mortgage whole loans and securities ("RMBS") globally. As you know, PIMCO is one of the largest active fixed income managers globally, and as of March 31, 2023, we manage $1.78 trillion of assets on behalf of millions of individuals and thousands of institutions globally; in all cases, we function in a fiduciary capacity and are legally obligated to act in the best interests of our clients. Below we share our thoughts on the potential benefits of and considerations for improvement of the FHFA Enterprise Single-Family Social Bond Policy and related program ("the Program").

Broadly, if designed properly, we believe the Program could provide improved access to financing of affordable housing for borrowers who otherwise may be shut out from traditional mortgage finance, all of which are in line with the FHFA's statutory charter.[2] We also believe the Program may crowd-in other types of private capital in addition to the traditional MBS investors given its mission-orientation, thereby increasing liquidity to the broader housing finance market and potentially having a positive impact on the underlying affordable housing stock.

- From a housing supply perspective, we believe that the Program could be both relevant and important given housing market developments in recent years. As you are well-aware, since 2021, US mortgage rates have climbed at one of the fastest paces on record, moving from 2.65% in January 2021 to 7.08% in November 2022.[3] Many existing homeowners will likely

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

[2] Ibid, p. 3

[3] Federal Reserve St. Louis, 30-Year Fixed Rate Mortgage Average in the United States: https://fred.stlouisfed.org/series/MORTGAGE30US

choose to remain in their current homes for a longer period than under a lower interest rate environment. This stay-in-place dynamic, combined with limited new housing under development and significant home price appreciation post-pandemic, have stretched affordability further for homebuyers, especially cohorts that have historically faced limited credit availability. The Program could serve as an important financing mechanism to potentially expand loan origination for specific targeted populations via broadening the investor base outside of the traditional MBS market participant, thereby increasing liquidity and funding to the housing finance market.

- From an investors' perspective, the Program could potentially have significant implications in that it would establish a direct channel for capital outside of the traditional MBS investor base to one that may have social return objectives in addition to traditional investment return goals. The establishment of the Program, empowered by the Enterprise's social-focused mission and data analytics capability, is an effective way to channel investments aiming to promote affordable housing and equitable access to mortgage finance. With the right design, the economic benefits from the Program should be directed back to borrowers.

We believe there could be great appeal from investors for this Program given its potential structure (e.g., convexity characteristics, mission-orientation) but the design of the program will be critical to ensuring sufficient interest. With that in mind, we offer several areas for consideration as FHFA conceives of the Program's design, all of which we believe would bring benefits to both borrowers and investors alike, specifically:

1) **Provide a clear definition of the target population**. Similar to the existing Enterprise programs such as HomeReady[4] and Home Possible,[5] we believe a successful Program should a have a list of eligibility criteria related to borrower and property characteristics. While the Program could have overlapping inputs with the Enterprises' existing Social Index, we think it is crucial to have the criteria explicitly stated in the sustainable financing framework, rather than solely relying on the Enterprises' Social Index. [6][7]

2) **Explicitly state the role of the Program with respect to the Enterprises' broader social strategies,** including affordable housing,[8] equitable housing,[9] as well as duty to serve.[10] Without compromising borrower privacy and to the extent possible, include specific data and

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[4] Fannie Mae HomeReady Program, https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/homeready-mortgage
[5] Freddie Mac Home Possible Program, https://sf.freddiemac.com/working-with-us/origination-underwriting/mortgage-products/home-possible
[6] Fannie Mae, https://www.fanniemae.com/media/44446/display
[7] Freddie Mac, https://capitalmarkets.freddiemac.com/mbs/social_index_disclosure
[8] FHFA, https://www.fhfa.gov/DataTools/Downloads/Pages/Enterprise-Housing-Goals-Data.aspx
[9] FHFA, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Equitable-Housing-Finance-Plans--for-Fannie-Mae-and-Freddie-Mac.aspx
[10] FHFA, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx

transparency to enable progress measurement towards the three aforementioned social objectives.

3) **Consider both wealth-based factors** (e.g., Loan to Value) and rate fairness (e.g., mortgage rate spread at origination), in addition to existing income-based factors as defined by area median income and designated low-income areas.

4) **Proceeds from Program.** To the extent possible, disclose allocation of the entirety of net proceeds from socially labeled bonds to the targeted populations.

5) **Disclosure framework.** Clearly communicate the expected and achieved impacts of the Program on an annual basis, with pool-level information included, if applicable while not compromising borrower privacy. At a high level, impacts to borrowers should be tangibly illustrated. This includes a clear attribution of payup benefits to borrowers. Use quantitative performance measures whenever applicable, and explicitly state impacts on the target population. As mentioned, we would caution primarily relying on or reporting impacts using the Enterprises' Social Index. As the International Capital Market Association (ICMA)[11] Impact Reporting suggests, complex calculation that is not built upon publicly disclosed data should be avoided.[12]

6) **Monitoring.** Establish a monitoring process with adequate safeguards and disclosure on the Program to ensure that the Program can benefit the targeted borrowers as intended, i.e., add to existing benefits that borrowers already receive. The Program should not be used as a replacement of the Enterprises' existing programs, such as HomeReady and Home Possible, to ensure that any benefits reaped from the Program to the borrower are additive rather than mutually exclusive. This can be monitored through the portion of loans originated under existing programs. Additional disclosure regarding GSEs' governance and risk management to mitigate adverse impacts such as predatory lending would also be encouraged.

7) **Consider alignment with ICMA's Social Bond Principles[13] and market sustainable financing practices.** We believe it would behoove FHFA to leverage the extensive work regarding labeled bonds that organizations, such as ICMA, have done in order to provide clarity, consistency, and credibility to the Program. ICMA, in particular, has done far-reaching work in upholding the credibility of the sustainable finance market and promoting best practices with both issuers and other stakeholders in the investment community through its Social Bond Principles.

We appreciate the opportunity to provide comments to FHFA and commend the FHFA for thinking creatively in terms of how to advance its affordable housing and equal access to credit objectives under its statutory charter. We look forward to our continuous dialogue with FHFA

[11] ICMA, https://www.icmagroup.org/sustainable-finance/membership-governance-and-working-groups/executive-committee/
[12] ICMA, https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf
[13] ICMA, https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/

and the Enterprises, and welcome resource for the FHFA and the Enterprises on these important topics.

Sincerely,

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