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May 17, 2023

Mr. James Wylie
Associate Director
Federal Housing Finance Agency
Office of Fair Housing Oversight
400 7th Street SW, 9th Fl
Washington, D.C. 20219

Re: Enterprise Single-Family Social Bond Policy

Dear Mr. Wylie,

SIFMA[1] and SIFMA's Asset Management Group[2] are pleased to respond to FHFA's request for information ("RFI") on the Enterprises' single-family social bond policy and program design. As you know, SIFMA members comprise the most active firms engaged in the secondary markets for the Enterprises' MBS. Many of these members, particularly in our Asset Managers Group, manage funds with environmental, social, or governance mandates, and are interested in this RFI. In this letter we will address the requests for input that are most relevant to our membership.

Summary

- Engagement with the market is critical. Our members support FHFA's outreach to collect market participants' views on a labeled social bond program as well as the embedded request for views on the Enterprises' Social Indices.
- Transparency is the theme of our response to this RFI. For any social bond program to be effective and achieve the goals described in the RFI, investors (and other market participants) must be able to clearly understand with specificity which "social" or other criteria bonds meet.
- Without transparency, funds may not be able to purchase Enterprise-issued securities to fulfill ESG mandates. Some of our members report this is the case today with the

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

[2] SIFMA AMG brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms whose combined assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

Enterprises' Social Index scores, where an overall score is given but transparency is not provided into the social index categories that drive the score.
- The RFI correctly observes that a social bond program would co-exist with the vitally important TBA market. Care must be taken in designing a social bond program to ensure that the needed disclosures do not have an unintended consequence of creating an arbitrage, bifurcate, or otherwise disrupt the homogeneity that enables TBA trading.

Our detailed responses to specific questions may be found in the annex.

We appreciate the efforts of FHFA and the Enterprises to create social index scores and explore the implementation of a social bond program to further affordability and other social policy goals in housing. We believe this should be an iterative process where FHFA and the Enterprises work together with stakeholders over time to move these initiatives in a positive direction. FHFA and the Enterprises should continue to engage a broad spectrum of investors and others in the MBS market as they determine whether to proceed with a Social Bond program, and continue to explore how the Enterprises' Social Index scores could be enhanced.

We would be pleased to discuss our views in more detail at your convenience.

Sincerely,

Chris Killian
Managing Director,
Securitization and Credit

Annex: SIFMA and SIFMA AMG Responses to Selected Questions

A-2: Should pay-ups from social bonds that accrue to the Enterprises or lenders be deployed to maximize borrower benefit? For example, should funds be allocated for specific programs,[1] to provide financial or other benefits to the individual borrowers that comprise a given pool, or some combination of options? Would improved liquidity resulting from the issuance of MBS social bond pools generate a sufficient benefit to borrowers, or should borrowers whose loans are included in a social pool receive specific benefit(s)? What could those specific benefits be?

We believe the goal of any social bond program should be to provide the maximum possible benefit to borrowers that is consistent with a well-functioning Enterprise MBS market. We believe that a more direct approach that should be explored involves the social benefit achieved by the programs coming directly from the loans that the borrowers receive, as opposed to from an allocation of profits from the previous sale of bonds (or other indirect methods).

A-3: Should the Enterprises monitor ongoing borrower impacts and benefits? If so, how? How often should reporting on impacts be provided?

Yes, the Enterprises should measure ongoing borrower impacts and benefits. The means of measuring and monitoring would likely vary based on the goals of the specific program in which borrowers were involved. Some measures that could be used might include sustainability of homeownership (e.g., foreclosure rates), pricing comparisons to non-social bond program loans, homeownership rates (segmented by whichever criteria is appropriate), or other metrics.

In terms of how often reporting should occur, we believe that the minimum must be in line with ICMA standards (annual), or else the programs will not be broadly accepted by investors with ESG mandates.

B-1: What attributes should be used to determine whether a loan is eligible for a social bond pool (e.g., income, geography, down payment assistance, reduction in mortgage interest rate, buydown programs)? What are the advantages and disadvantages to identifying eligibility based on mortgage product versus some other methodology (e.g., minimum Social Index scores)?

A variety of attributes could be used to determine whether a loan is eligible for a social bond pool, but it is not our place to comment on which attributes FHFA and the Enterprises should choose, as that is a housing/social policy issue.

However, whichever attributes are chosen must be transparently reported, and must be based on a program that is also transparent. We do not believe that Social Index scores alone can form the basis of a social bond program, as they are not transparent. One option that FHFA and the Enterprises could explore further with market participants would be to have bonds issued on a single-program basis, as opposed to a mixed pool of loans from a variety of programs that may satisfy divergent social impact criteria. If this were done in a transparent manner, it would allow the market to focus its investment most efficiently and provide signals as to which programs would receive the most benefit from Enterprise social bond program execution.

> ***B-2: Are the Social Index loan criteria aligned with investors' social and/or impact mandates? If not, what adjustments are needed to the criteria or to reporting of the scores?***

No, the Social Index Scores are not aligned with investor mandates because the Enterprises' report only non-specific pool-level information regarding the Scores. Investors need to know with specificity which of the eight criteria a given pool meets, but this information is not provided. Some of our members report that they are unable to purchase MBS for impact/ESG funds because of how the Social Index Scores are disclosed today.

While the Enterprises must protect borrower privacy, we believe that they can work with investors and other market participants to determine a more granular, yet still protective, disclosure format. A related question our members raised regarding the Social Index Scores is whether or not the Enterprises are collecting additional data that could be used to drive additional 'Social' criteria (e.g., first generation homebuyers).

FHFA and the Enterprises should continue a dialog with their investor base to discuss further enhancements the Enterprises' social index scores so that they may better fulfill their goals.

> ***C-2: If the Enterprises begin issuing social bonds, should they continue issuing single-family affordable bonds, or other "non-social" specified pools?***

This question should be clarified, as it is unclear how a bond categorized as "affordable" could at the same time be considered "non-social". In any case, the Enterprises should be driven by the market, and continue to be responsive to the desires of investors, lenders, and the borrowers they serve.

> ***C-3: If the Enterprises begin issuing social bonds, should they continue disclosing Social Index scores for all UMBS issuances?***

If the Enterprises continue to disclose Social Index scores, they should enhance them through a dialog with market participants as we have discussed above.

> ***C-4: What market risks, including potential impacts to the UMBS, should be considered when developing a social bond program? For example, could certain program outcomes be harmful to UMBS liquidity, and, if so, under what circumstances, if any, would such a result be prudent?***

We do not believe there is an outcome that could justify a program that impaired UMBS liquidity, given the importance of the UMBS market to mortgage finance and the tens of millions of prospective and current homeowners in the U.S. that are served by it (including those in any "social" program). We note in this regard that the scale of the Social Bond program is relevant to this analysis. As the program would conceivably be designed to be executed in specified pools that receive a payup to TBA, as the program becomes larger it could decrease supply into the TBA market all else equal. This could have an impact on TBA pricing or liquidity. However, at this time we do not have a sense of the scale of any such program nor what effects, if any, it could have. This highlights the need for an ongoing dialog with MBS investors and other market participants.

> ***D-1: For investors with a social investment mandate, what attributes, impact measures, and guidelines/standards would be necessary to meet that requirement? Do current Enterprise products or programs already meet these investment guidelines, or would investors prefer or need Enterprise labeled social bonds? Are there any guidelines that would prevent investment in social issuances?***

We believe the Enterprises should look to ICMA standards as a minimum standard for the issuance of labeled bonds. Failing to adhere to these standards may render the bonds unable to satisfy investment mandates that require bonds to be labeled and aligned with ICMA standards.

As mentioned in the introduction and elsewhere, we believe that greater transparency as to specific borrower characteristics or metrics is critical to enable Enterprise issuances to satisfy impact mandates. Current programs, such as the Social Index Scores, do not always satisfy investor criteria/mandates due to their lack of transparency.

> ***D-2: What incremental insights or additional disclosures do ESG investors need to appropriately evaluate social bonds? For each proposed insight or disclosure (e.g., borrower income band), should it be provided at the loan-level, pool- level, cohort-level, or some other level, or should some type of masking be employed? How would that additional disclosure aid investment decisions? To what extent would a specific disclosure increase the risk of borrower reidentification or provide sensitive, personal insight into the borrower?***

Investors need to know what makes the bond "social" or deserving of its label, such as transparency into underlying borrowers' characteristics or details of the lending program. To the extent that certain information cannot be disclosed at a loan level due to privacy concerns, this information could be stratified and disclosed in a more aggregated fashion, and our members would be happy to discuss this further.

We note that Ginnie Mae has begun to disclose a substantial amount of data on LMI borrowers in a manner that is more granular that current Social Index score disclosure.[3]

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[3] https://www.ginniemae.gov/newsroom/Pages/PressReleaseDispPage.aspx?ParamID=272

D-3: What are the advantages and disadvantages of providing additional loan-level and/or pool-level data about the borrower?

More transparency would make the labeled bonds more attractive to investors. Such transparency would be provided within the confines of respect for borrower privacy and preservation of UMBS market liquidity, as discussed above.

D-4: Are there techniques to anonymize borrower data that the Enterprises should consider to mitigate the risk of borrower reidentification from disclosures supporting Enterprise issuances? For example, should the Enterprises remove some data elements from existing disclosures, revert to pool-level or cohort-level disclosures, or round the values of certain data elements?

We do not have specific comments on masking techniques. However, we do believe the Enterprises should explore all avenues to provide the most granular disclosure that is practical and should resist any competitive desires that might lead them to resist sharing information.