RE: Freddie Mac & Fannie Mae 2022-2024 Duty To Serve

Dear Ms. Barringer:

My name is Ed Fay and I am the founder and CEO of Fay Financial, a mortgage Servicer.

On behalf of Fay Financial, I thank you for the opportunity to provide comments on Fannie Mae and Freddie Mac’s (together, "the Enterprises") upcoming Social Index bonds, and the related Social Index criteria, scoring and pricing. We at the Fay Group are writing to urge the Federal Housing Finance Agency (FHFA) and the Enterprises to expand the availability of mortgage credit through broader acceptance and better pricing of loans that meet Social Index loan traits and are originated by minority-owned lenders, CDFIs and MDIs who are doing the essential work of primarily serving historically underserved borrowers (HUBs). This topic is important to the Fay Financial as, while serving the underserved has always been a part of my company’s DNA, we are working very hard today to expand in the direction of the mortgage market of the future, not of the past, which has relied primarily on refinancing middle to upper income, non-minority baby boomer and Gen X households. We see this now as a largely bygone era. Below are our written responses to the questions posed in this RFI.

The FHFA is embarking on an important initiative on behalf of the GSEs:

* In 2022, there were $8.4 trillion in assets classified as ESG investments, representing 13% of total U.S. assets under professional management. “Impact investments” provide explicit opportunities to fund activities intended to benefit a specific class of persons or the environment. For example, social funds and social bonds, construction of affordable housing and schools, and impact investments have facilitated access to lower costs of capital for companies engaged in activities with a positive social benefit. Outcomes may include higher homeownership rates, more sustainable home retention outcomes, and/or improved liquidity.

Question A-1. What program outcomes and borrower impacts should an Enterprise Single Family Social Bond program seek to achieve? Which borrower benefit impact measures should be reported?

**The primary goal of an Enterprise Single Family Social bond program is two-fold:**

1. **Borrowers – The program should be designed to provide the maximum benefit to mortgage borrowers in providing the optimal product and rate for that borrower;**
2. **Investors – Secondarily, the program should be designed to create new investment opportunities for both ESG and/or Impact investors who are seeking to make institutional investments in the US residential housing and mortgage finance space.**

**Additionally we believe it is important that the broadest possible data set of Social Criteria are included. One important missing item appears to be the type of firm – i.e. is the loan originator minority-owned, minority-operated or primarily minority-serving entity. This criterion if managed properly could affect factors in mortgage risk and performance such as the likely prepayment speed, the underwriting process and the ongoing credit and customer service performance of the loans. All of these factors could be influenced by which kind of firm originated the loan, but more importantly, if the objective it to improve the environment for not just the borrowers but also opportunity for minority owned businesses this is valuable information.**

Question 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, 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? For example, Special Purpose Credit Programs, the Housing Trust Funds, or potential new programs.

**If we improve liquidity with these programs, they will create reduced pricing opportunities for borrowers.**

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

**Yes, we believe the function of borrower impact analysis and reporting is best performed by the investor or reports can be included by the Enterprises in their Corporate Social Responsibility Report.**

Question A-4 Should the Enterprises isolate, measure, and report on increased market

liquidity for Enterprise social bonds and any resulting benefit for eligible borrowers? If so, how?

**Any reporting on liquidity should be done only in ways consistent with other UMBS reporting on liquidity. This will help ensure the bonds trade on par with the liquidity of the UMBS marketplace.**

Question 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, buy down programs)? What are the advantages and disadvantages to identifying eligibility based on mortgage product versus some other methodology (e.g., minimum Social Index scores)?

**We believe the current form of SCS and SDS is well designed. However, the one omission seems to be the originator entity. The originator ultimately creates mortgage opportunity for borrowers through the product selection process by the Loan Officer, sets the rate appropriately or inappropriately and determines the loan best execution. With all these roles, no entity is more important to the mortgage transaction than the originator. We believe it is consistent with Social Criteria to state if the loan was originated by a bank, non-bank, credit union, MDI, CDFI, minority-owned, minority-controlled or minority serving firm**.

Question 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?

**See above**

Question B-3 What are the advantages and disadvantages of identifying loans for inclusion in social bonds prior to origination, compared to after funding? What notice, if any, should borrowers be given regarding potential inclusion of their loan into an Enterprise social bond? Should borrowers be able to opt out of a social bond program?

**Borrowers cannot control the secondary market execution of their loans so we don’t foresee any way a Social Bond “opt out” provision works in practice.**

C. General Questions on a Social Bond Program

Question C-1 What considerations should be made to ensure the issuance of social bonds appropriately aligns with and supports the safety and soundness of the Enterprises? Are there social bond features or program designs that would conflict or be in tension with the Enterprises’ safety and soundness requirements?

**No, we don’t believe social bonds conflict or impair Enterprise safety and soundness. GSE guarantee fee and loan-level price adjustments both combine to reflect the inherent credit risk embedded in Social index UMBS. Thus, no changes appear necessary there. Given that the Social Index bonds prepay slower and garner a pay up, other GSE safety and soundness concerns, such as Cash Window pipeline hedging, carry and interest-rate risk management should be the same or less than with other GSE products.**

Question C-2 If the Enterprises begin issuing social bonds, should they continue issuing single-family affordable bonds, or other “non-social” specified pools?

**Yes**

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

**Yes. Disclosing both historical and currently issued UMBS will create information that leads to liquidity which is the primary goal of any MBS program. As a specified pool story, this data is simply essential for investors and originators to trade Social Index UMBS**.

Question 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 don’t believe UMBS bonds trade collectively in a zero-sum context whereby success in one product creates harmful effects to other/another product. In fact, the creation of an ESG-related social bond program can become “a rising tide which lifts all boats” by further cementing the CRA MBS market, ESG green bonds and other related products**.

Question C-5 What activities or monitoring should the Enterprises and/or FHFA consider to ensure compliance with fair lending laws?

**The same strong compliance management systems used today (e.g., thorough policies & procedures, training, quality assurance and control, internal audit, issues management, etc.) should continue. The state and Federal regulators have a strong program to ensure compliance and additional layers could cause firms to not engage in the program.**

Question D-1 For investors with a social investment mandate, what attributes, impact measures, and guidelines/standards14 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 adding the originator type will help investors focused on individual and business impact by helping borrowers and businesses in underserved communities. We see an eventual opportunity for exclusive bonds created by minority owned and run companies, which will have greater ESG impact for investors.**

Question 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?

**See D1**

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

**The SDS scoring methodology is well designed to prevent inadvertent disclosure of borrower data. We don’t recommend any changes there**.

Question 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?

**N/A**

Sincerely,

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Ed Fay

Chief Executive Officer

The Fay Group