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National Association of Federally-Insured Credit Unions

May 16, 2023

Federal Housing Finance Agency
Office of Fair Lending Oversight
400 7th Street SW, 9th Floor
Washington, DC 20219

RE: Enterprise Single-Family Social Bond Policy

Dear Sir or Madam:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the Federal Housing Finance Agency's (FHFA) enterprise single-family social bond policy request for input (RFI). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 135 million consumers with personal and small business financial services products. NAFCU supports the creation of a single-family social bond policy and (1) urges the FHFA to use the pay-ups from these bonds to purchase non-conforming loans; (2) recommends that the FHFA monitor and annually report on the ongoing borrower impact and the number of nonconforming loans purchased in the secondary market; and (3) encourages the FHFA to incentivize originators by reducing guarantee fees or offering other pricing adjustments for the loans that will be labeled as single-family social bonds.

General Comments

Fannie Mae and Freddie Mac (together the GSEs) both issue and guarantee mortgage-backed securities (MBS) backed by pools of single-family and multifamily mortgages. In June 2019, the GSEs began issuing single-family Uniform Mortgage-Backed Securities (UMBS) which are eligible to be traded in the To-Be-Announced market regardless of which GSE is the issuer. Consequently, UMBS has merged the formerly separate MBS markets of the GSEs. MBS that are likely to prepay slower than others typically receive specified pay-ups because they provide investors with interest payments for a longer period. The GSEs issue specified pools comprised of loans that share a similar characteristic, typically equivalent to lower prepayment speeds; generally, investors are willing to pay a premium for these specified pools referred to as the specified pool-pay-up.

In making investment decisions, some advisers and funds consider Environmental, Social, and Governance (ESG) factors alongside many other factors.[1] Social impact investing is a subset of

[1] The Division of Examinations' Review of ESG Investing, Risk Alert, Division of Examinations, U.S. Securities and Exchange Commission, April 9, 2021. https://www.sec.gov/files/esg-risk-alert.pdf.

ESG investing and is distinguished in that social impact investing seeks to create social value rather than minimize adverse impacts. The GSEs do not currently issue labeled single-family social bonds, but both GSEs do issue labeled multifamily social bonds.

A critical aspect of any social bond program is the set of specific outcomes that the program is attempting to achieve. A GSE-labeled social bond should positively impact borrower sustainability, affordability, and/or equity. NAFCU recommends that the FHFA additionally seek to achieve lower interest rates, wealth building for underserved communities, affordable housing, sustainability, and retention through its social bond program.

NAFCU urges the FHFA to use the pay-ups from single-family social bonds to purchase nonconforming loans from credit unions that focus on providing financial services to local communities that are underserved and lack access to financing, such as community development financial institutions (CDFIs). CDFIs promote financial inclusion and focus on serving the needs of very-low, low-, and moderate-income communities. In order to be a certified CDFI, a credit union, or other financial institution, must have a primary mission of promoting community development.[2] Often the loans issued by CDFIs are nonconforming as they generally do not meet the loan-to-value, debt-to-income, and FICO score requirements to be able to sell to the GSEs. Labeling these loans as social bonds and selling them to investors interested in social impact investing would expand the GSEs' role as secondary market makers, providing CDFIs with access and allowing these institutions to originate more loans to support their communities and positively influence the outcomes of the social bond program. NAFCU has previously explained, including in its December 2, 2021 comment letter to Director Sandra Thompson requesting pilot programs to increase access to mortgage credit,[3] The huge potential benefits of purchasing CDFI nonconforming mortgages.

NAFCU recommends that the FHFA monitor ongoing borrower impacts and benefits by keeping a record of how many nonconforming loans are purchased by the GSEs and reporting this number on an annual basis. It is necessary to convey the impact of a program that is intended to assist the underserved. Reporting this information can have a positive impact on performance and would encourage more financial institutions to help underserved communities by informing them that these loans will not remain in their portfolios and can be sold to the secondary market. An additional way to monitor borrower impacts is for the FHFA to annually report what it has used the pay-ups from these social bonds for. Investors will be more likely to invest in a program when they know what the benefits of their investment will be. They will be even more likely to invest if there is data to support what they are being told is the benefit of their investment.

Lenders should be incentivized to originate these loans and provide the additional information needed for the GSEs to label them as single-family social bonds. By lowering guarantee fees or

[2] CDFI Certification, CDFI Fund. (April 7, 2023). https://www.cdfifund.gov/programs-training/certification/cdfi
[3] NAFCU. Pilot Programs to Increase Access to Mortgage Credit. (December 2, 2021). https://www.nafcu.org/system/files/files/12.2.2021%20Letter%20to%20FHFA%20re%20Pilot%20Programs.pdf

providing credit unions with loan level price adjustments for these loans, the savings will be passed on to borrowers and further allow credit unions to continue to serve low-income, moderate-income, and underserved borrowers. NAFCU recommends that the FHFA create a new channel to deliver these loans with new pricing that includes lower guarantee fees for the originator. The creation of a new channel will allow originators to specifically deliver these loans with the required attributes and make it easier for them to be pooled together and labeled for sale to investors with an interest in social impact.

NAFCU appreciates the FHFA's desire to facilitate positive social and environmental outcomes and supports the creation of a single-family social bond policy. NAFCU recommends that the FHFA annually report on the outcomes of these social bonds and urges the FHFA to purchase nonconforming loans from CDFIs. If you have any questions or concerns, please do not hesitate to contact me at amoore@nafcu.org or (703) 842-2268.

Sincerely,

Aminah Moore
Senior Regulatory Affairs Counsel