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Fannie Mae
1100 15th St. NW
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Mark Hanson
SVP, Securitization
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102

Dear Fannie Mae and Freddie Mac,

The Structured Finance Association ("SFA") writes in response to the announcements regarding the GSEs' joint initiative to publish the Social Index for their single-family MBS pools. SFA and our members greatly value the leadership role you've taken in environmental disclosure, and your continued dedication to improving the nascent state of ESG data collection and reporting. We appreciate the outreach from both GSEs during the rollout of the social index—including Fannie Mae's initial announcement in August 2022, as well as the joint announcement from both Fannie Mae and Freddie Mac in October 2022. Accordingly, in this letter SFA shares our RMBS investor members' feedback on the Social Index. It is our hope that this feedback can serve as an important tool in helping you deliver information that is relevant, useful, and timely for the investor community in their support of the GSEs mission.

SFA and our members appreciate the difficulty of balancing factors like the availability, reliability, and consistency of data with the need for data that informs both credit and impact assessments that investors undertake. We also understand there are legitimate concerns related to borrower privacy and commercially sensitive information as it relates to ESG disclosures. This recognition has been informed through our multi-year ESG efforts engaging with the market in developing standardized frameworks for reporting 'E', 'S', and 'G' factors across the securitization market, with specific best practice reporting standards for each asset class. This initiative includes feedback and input from issuers, investors, syndicate banks, rating agencies, law firms, and data & analytic providers from across the securitization industry, and we have been pleased to include representatives of both GSEs in this work. Despite the enormity of this task, we remain confident that issuers, investors, and other industry stakeholders can come together to reach consensus views on best practices for reporting and disclosing ESG data.

Our RMBS investors found the Social Index to be a helpful conversation starter regarding the types of disclosure metrics and information that are needed for their investment analysis and reporting. For example, enhanced disclosures on income, borrower and property information such as low-income borrowers, minority borrowers, high-needs rural areas and designated disaster areas are all developments that investors welcome. However, SFA Investor Members uniformly believe that how the Social Index measures, aggregates, scores, and reports the Social factors embedded within the current construct of the Social Index score provides limited utility.

Below we provide a detailed explanation of these limitations and some initial suggestions on how to improve the utility of future disclosure releases.

The overarching concern is that by merging different social impact data points, the Social Index obfuscates the nature and impact of those individually distinct social factors. Under such a scheme, the usefulness or impact of any single data point is completely opaque, rendering it of limited to no use to investors. This is particularly problematic when considering that there are multiple overlapping (and potentially competing) social and policy goals embedded within the Social Index score. Moreover, because the data points were self-selected by the GSEs, it runs the risk of highlighting areas where the issuers are most active or impactful, perhaps at the cost of minimizing other potentially pertinent data points. If investors are unable to review individual social components with sufficient transparency, investors will be unable to independently assess the social impact of a specified bond.

It is this element of the Social Index (the amalgamation of discrete social factors into a blended score) that represents a fundamentally flawed approach to Social impact reporting. A better approach – that is consistent with other reporting that the GSEs provide – would be to take each data element that is relevant and material to investors, and to report them individually in a transparent manner. Reporting of each metric on an individual basis – even if disclosed only at the pool level – is a necessary component to satisfy investor transparency and disclosure requirements. These components form the basis for investors' overall investment decisions; a composite Social Index score is simply an insufficient basis upon which to make those decisions. Investor feedback has consistently stated an issuer-created, opaque, amalgamated score does not satisfy their compliance and diligence obligations, and furthermore carries significant regulatory and reputational/headline risk of "social washing".

To use an example from the recent past, the success of the Credit Risk Transfer ("CRT") programs at both GSEs is owed in part to the decision to report granular, discrete data element of the performance of loans that determine CRT bond payments. These data elements included reporting information related to loan-to-value ratios, credit scores, debt-to-income ratios, loan purpose, and other factors that affect bond performance. The decision to release this kind of data in this manner was unprecedented and played an influential role in investor (and industry) acceptance of GSE CRT bonds. Today, CRT bonds are a vital means by which private capital funds single-family mortgages.

We are at a similar stage when it comes to Social reporting, and a similar approach is warranted for reporting social factors. Reporting granular, discrete data elements will enable the market itself to grow and evolve over time. Furthermore, combining a self-selected subset of certain elements into a single score only serves to short-circuit the dynamics which could enable future market development in this space.

In fact, some of our investor members even believe that releasing the Social Index in its current form may fundamentally undermine the type of transparency that the GSEs indicate they are seeking to provide. On this point, there is a split among our members, where some investors see

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the Social Index as a somewhat flawed first methodology but appreciate the GSEs taking a first step. However, other investors would have preferred that it had never been released in its current form as they are concerned that the aggregated data could be misleading and potentially steer private issuers towards reporting practices that obfuscate transparent disclosure. On the last point, both subsets of investors agree that the Social Index must not serve as a de facto industry standard framework for how other structured finance issuers disclose and report Social data metrics in the future.

Finally, as we noted earlier, SFA appreciates the challenges in developing ESG reporting standards and frameworks including privacy concerns around disclosing borrowers' personally identifiable information ("PII") and commercially sensitive information. These concerns are amplified when considering that reporting multiple data points might be used to triangulate and identify a particular borrower. Investors have a vested interest in preventing the disclosure of PII and believe that steps should continue to be taken to mitigate such risks. Potential approaches to resolve these concerns while providing further disclosure on Social factors might include reporting discrete data elements at a cohort or pool level. We would welcome the opportunity to engage in further discussion on how best to balance the need for borrower privacy with reporting and disclosing independent social impact factors.

SFA believes that responsibly providing access to credit benefits individuals, families, communities, and our nation. Establishing a uniform framework and best practices for disclosing Social impact reporting data can be an important lens through which these goals can be measured and improved. We appreciate the outreach from the GSEs, and hope that our comments and suggestions can be utilized to help further grow access to credit in a responsible manner. We look forward to continuing our work on this critical issue.

Best,

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Michael Bright, CEO

Cc: Federal Housing Finance Agency, Office of the Director