



Fannie Mae®



Fannie Mae Single-Family Green Bond Framework

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Background and Objective

Fannie Mae

Fannie Mae is a leading source of financing for mortgages in the United States. The company's mission is to provide a stable source of liquidity to support housing in the U.S. for low- and moderate-income borrowers and renters. Fannie Mae operates in the secondary mortgage market, primarily working with lenders, who originate loans to borrowers. It does not originate loans or lend money directly to borrowers in the primary mortgage market. Instead, Fannie Mae securitizes mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that it guarantees (referred to as Fannie Mae MBS); purchases mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date; manages mortgage credit risk; and engages in other activities that support access to credit and the supply of affordable housing.

Through the single-family and multifamily business segments, Fannie Mae provided over \$650 billion in liquidity to the mortgage market in 2019, which enabled the financing of approximately three million home purchases, refinancings or rental units.

Fannie Mae was placed into conservatorship in 2008. Its regulator and conservator, the Federal Housing Finance Agency (FHFA) and the U.S. Treasury entered into an agreement that permits Fannie Mae to continue to fulfill its mission. A key term of the agreement is that the U.S. Treasury provides funding if the company's net worth falls below zero in any given quarter. Upon entering into the agreement, the U.S. Treasury stated that holders of senior debt, subordinated debt, and MBS issued or guaranteed by Fannie Mae are protected by the agreement without regard to when those securities were issued or guaranteed.

Fannie Mae ESG

In 2019, Fannie Mae launched its Environmental, Social and Governance (ESG) strategy. This strategy builds upon Fannie Mae's long-history of supporting social issues, including increasing access to affordable housing, enabling diversity and inclusion amongst its employees, the broader housing finance industry and its Board, and building strong governance practices including adhering to a strong Code of Conduct and risk controls over its loan products and processes. Fannie Mae committed to ESG with the support of the Board and its executive leadership. In 2019, a new Board Committee was formed, the Community Responsibility & Sustainability Board Committee to focus on our mission-oriented efforts and to cement our commitment to becoming a leading ESG company. In Fannie Mae's 2019-10K, Fannie Mae announced to the market that ESG is one of its three Strategic Objectives: to build on our mission-oriented activities to become a globally-recognized, top-performing ESG (environmental, social and governance) financial services company by delivering positive mission and community outcomes with our stakeholders. The growth of the Green Bond program over the last ten years demonstrates commitment to the environmental pillar within Fannie Mae's ESG strategy. Through the Green Bond Program Fannie Mae is able to harness the power of mortgages to encourage sustainable lending and cost savings for homeowners and renters through affordable, energy and water efficient housing.

Fannie Mae Single-Family Mortgage Business

The Single-Family business provides liquidity to the mortgage market primarily by acquiring single-family loans from lenders and securitizing those loans into Fannie Mae Single-Family Mortgage Backed Securities (MBS) that carry the guarantee of timely payment of principal and interest. The Single-Family business also supports liquidity in the mortgage market and the businesses of lender customers through other activities, such as issuing structured Fannie Mae MBS backed by single-family mortgage assets and buying and selling single-family agency mortgage-backed securities.

A single-family loan is secured by a property with four or fewer residential dwelling units. The Single-Family business securitizes and purchases primarily conventional (not federally insured or guaranteed) single-family fixed-rate or adjustable-rate, first-lien mortgage loans, or mortgage-related securities backed by these types of loans. It also securitizes or purchases loans insured by the Federal Housing Administration (FHA), loans guaranteed by Veterans Affairs (VA), loans guaranteed by the Rural Development Housing and Community Facilities Program of the U.S. Department of Agriculture, manufactured housing mortgage loans and other mortgage-related securities.



Fannie Mae Single-Family Green MBS and Governance

The Single-Family Green Mortgage-Backed Security (MBS) is another important step in Fannie Mae's commitment to leading and innovating in green finance. Fannie Mae began issuing Single-Family Green MBS in April 2020 as an expansion of the company's Green Bond Program. The Single-Family Green MBS business strategy is led by Fannie Mae's Senior Vice-President for Capital Markets and includes a dedicated team of finance, communications and sustainability experts. The team's expertise includes energy efficiency finance, energy and water efficiency technologies, renewable energy and energy benchmarking protocols to green building certifications. The team reports on issuance and performance of the Single-Family Green MBS business to the executive leadership of the company, including the Vice-President of Enterprise ESG and the Fannie Mae Community Responsibility & Sustainability Board Committee.

Use of Proceeds

The proceeds of Fannie Mae's Single-Family Green MBS program are used to finance mortgage loans backed by properties awarded green building certifications at the time construction is completed.

Fannie Mae engaged Integral Group, LLC (Integral) to evaluate the green building certifications available and applicable to single-family homes in the United States. Integral recommended ENERGY STAR Homes Version 3.0 certification to serve as the minimum requirement because, on average, homes with this certification are 29% more efficient than the baseline home (International Energy Conservation Code 2006). This level of efficiency is critical to supporting the transition to a low-carbon economy, and can result in significant cost savings for the owners and renters of single-family housing.

As represented in the table below, other certifications in addition to the ENERGY STAR Homes Version 3.0 certifications may be included in issuances through the Single-Family Green MBS Program if they:

1. Require ENERGY STAR v3 as part of the certification,
2. Have requirements equivalent to ENERGY STAR Version 3.0,
3. Have requirements that go above and beyond ENERGY STAR v3, or
4. Meet the eligibility requirements of the EU Green Bond Standard for new construction, as these standards typically achieve 75-100% energy savings from the baseline home.

Issuing Organization	Certification	Version	Eligibility to EU Green Bond Standard
USGBC	LEED Zero	LEED Zero Energy	X
ILFI	Living Building Challenge	2/3/3.1/4	X
ILFI	Net Zero Energy	2/3/3.1/4	X
Passive House Institute (PHI)	Certified Passive House	2016	X
Passive House Institute (PHI)	EnerPHit Certified Retrofit	2016	X
Passive House Institute US (PHIUS)	PHIUS+ Certified	2015	X
Passive House Institute US (PHIUS)	PHIUS+ Certified	2018	X
U.S. Environmental Protection Agency	ENERGY STAR Certified Homes	3/3.1/3.2	
U.S. Department of Energy	Zero Energy Ready Home	Rev. 07	
U.S. Environmental Protection Agency	ENERGY STAR Indoor Air Plus	3	
Enterprise Green Community Partners	Enterprise Green Communities Criteria	2015	
Enterprise Green Community Partners	Enterprise Green Communities Criteria	2011	
Build it Green	GreenPoint Rated New Home Single-Family (California Only)	7	
USGBC	LEED Residential	4.1	
USGBC	LEED BD+C: Homes	4	



Fannie Mae will evaluate this list annually to determine if a certification should be removed due to failure to meet the criteria, or if a new certification should be added due to meeting the criteria.

Process for Project Evaluation and Selection

To secure the Single-Family Green MBS designation, all eligible loans sold to Fannie Mae by a lender must be identified as receiving, at a minimum, ENERGY STAR certifications that meet or exceed the national program requirements for [ENERGY STAR Certified Homes](#), Version 3.0. In addition, before the MBS is issued, Fannie Mae will independently verify the green building certification by validating the certification through a proprietary database developed to capture the approval of the Green Building Certification by the rater.

Management of Proceeds

Each Fannie Mae Single-Family Green MBS supports loans backed by single-family properties that have achieved and were awarded a green building certification. The management of the proceeds from these securities are consistent across Fannie Mae's Single-Family securitization program. Fannie Mae commits to acquire the mortgage loan from the lender if it conforms to all requirements stated in Fannie Mae Single-Family Selling Guide. Once acquired, Fannie Mae securitizes the loan into a fully guaranteed MBS and sells the MBS to the general MBS investor community. The proceeds from the sale of the MBS are used to fund the loan from the lender.

The intention of securitizing loans with similar characteristics is to provide liquidity and enhanced value back to the lenders for new origination loans backed by green building certifications. Ideally, this value would be passed through to the borrower through energy savings and would increase the incentive to builders to construct more energy-efficient homes.

Governance and Internal Audit

As part of the process for Fannie Mae to buy a mortgage loan from a Lender, the Lender is required to represent and warrant that the loans it is selling Fannie Mae meets general criteria described in the Fannie Mae Single-Family *Selling Guide*. Lenders must also represent that such loan has received a Green Building Certification of at least [ENERGY STAR Certified Homes](#), Version 3.0 for such loan to be eligible for pooling into our Single-Family Green MBS. Once the loan is delivered to Fannie Mae and prior to pooling, we use the property address to validate with an independent rater that the property did receive the certification. If we find that the property backing the loan did not have a valid green building certification, we would not allow the loan to be pooled into a Single-Family Green MBS. However, the loan would remain eligible for pooling into other single-family pools.

External Reporting

Fannie Mae's reporting includes a [Single-Family Green MBS](#) webpage available on its public website. This page provides a high-level overview of Fannie-Mae's Single-Family Green MBS program as well as a listing of the Green MBS issued to date. Work is also in progress to incorporate an attribute in the MBS disclosure documentation identifying MBS that are fully backed by properties that were awarded ENERGY STAR v3 or have requirements that go above and beyond ENERGY STAR v3. (See table in section 2)

Fannie Mae will also consider publishing an annual investor report describing the Green MBS eligible assets for the preceding year. If published, the report will be made available on the Single-Family Green MBS webpage and would include quantitative impact measurements where feasible and a general summary of Fannie Mae's Green Bond Program development and green financing activities.



Annex

Process for project evaluation and selection of Green Building Certification Mortgage loans

To secure the Single-Family Green MBS designation on a Green Building Certification loan:

1. The delivered loan must conform to all requirements stated in Fannie Mae Single-Family *Selling Guide* and have obtained a certification that the related property meets or exceeds the national program requirements for [ENERGY STAR Certified Homes](#), Version 3.0.
2. The Lender must identify these loans upon delivery to Fannie Mae, which occurs after locking the rate and closing the loan with the borrower.
3. Once the loan is delivered, Fannie Mae will independently validate the certification through a proprietary database developed to capture the approval of the Green Building Certification by the rater and a copy of the certification.
4. Failure to meet any of the above conditions will result in the inability of the loan to be pooled in a Single-Family Green MBS.

Investor Disclosure

Fannie Mae’s Single-Family Business publishes at-issuance and ongoing data for all Single-Family MBS through a web-based system called [Pooltalk](#)®. Through [Pooltalk](#), investors can obtain comprehensive information about single-family securities and the underlying loans. Work is also in progress to incorporate an attribute in the MBS disclosure documentation identifying MBS that are fully backed by properties that were awarded ENERGY STAR v3 or have requirements that go above and beyond ENERGY STAR v3. (See table in section 2)

In addition to maintaining the Single-Family Green MBS webpage, Fannie Mae issues disclosure files that feed third-party sites such as Bloomberg, Intex, and eMBS. These third-party data providers are also working to improve their Green-related disclosures. Bloomberg has updated its description (DES) screen to identify Single-Family Green MBS, enabling investors to quickly determine if a bond falls under the Green Financing Business. The Bloomberg notation is identical to what is currently being presented for Fannie Mae’s Multifamily Green MBS.

The Single-Family Green MBS team continues to work with these data providers in order to help investors with a Socially Responsible Investment (SRI) mandate to determine the appropriateness of Green MBS as a part of their investment portfolio.

Bloomberg Green Bond Flag



Bloomberg screen image