Second-Party Opinion

Reviewed by: MORNINGSTAR | SUSTAINALYTICS

Second-Party Opinion

Fannie Mae Social Bond Framework

Evaluation Summary

Sustainalytics is of the opinion that the Fannie Mae Social Bond Framework is credible and impactful and aligns with the Social Bond Principles 2023. This assessment is based on the following:

USE OF PROCEEDS The eligible categories for the use of proceeds – Socioeconomic Advancement and Empowerment, and Affordable Housing – are aligned with those recognized by the Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDGs 10 and 11.

PROJECT EVALUATION AND SELECTION Fannie Mae will select the eligible mortgages aligned with its Mission Index and multifamily affordable housing criteria, in accordance with its existing mortgage purchase processes, and compliance with the eligibility criteria defined in the Framework. Fannie Mae has internal processes to address environmental and social risks commonly associated with eligible mortgages. Sustainalytics considers the project selection process to be in line with market practice.

MANAGEMENT OF PROCEEDS The social mortgage-backed security (Social MBS) issuances will securitize mortgages that align with the criteria defined in the Framework, effectively achieving full allocation to its Social MBS at the time of issuance. Sustainalytics considers this process to be in line with market practice.

REPORTING Fannie Mae discloses details of the underlying mortgages at the time of issuance of each Social MBS. Impact reporting will be published annually on Fannie Mae's website and include a summary of the eligible mortgages securitized into the Single-Family Social MBS and associated impact metrics. Impact reporting for Multifamily Social MBS will be provided at the summary level, and at the bond-level where feasible, on its website. Sustainalytics views Fannie Mae's reporting commitment as aligned with market practice.

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Report Sections

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Introduction

Fannie Mae ("Fannie Mae" or the "Organization") is a government-sponsored enterprise chartered by the US Congress to support the housing market in the country and promote access to mortgage finance. It operates in the secondary mortgage market, and purchases and guarantees mortgages originated by lenders. Through its two primary lines of business, Single-Family and Multifamily, Fannie Mae provided USD 684 billion in liquidity to the mortgage market in 2022 to support 2.6 million home purchases, refinancings and rental units.[1]

Fannie Mae has developed the Fannie Mae Social Bond Framework dated January 2024 (the "Framework") under which it intends to issue single-family or multifamily mortgage-backed securities (MBS)[2] backed by eligible mortgages that are aimed at enhancing access to financing and affordable housing among the target populations in the US. The Framework defines eligibility criteria in two areas:

1. Socioeconomic Advancement and Empowerment
2. Affordable Housing

Fannie Mae engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework's environmental and social credentials and its alignment with the Social Bond Principles 2023 (SBP).[3] The Framework has been published in a separate document.[4]

Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[5] opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Social Bond Principles 2023, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.15, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Fannie Mae's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Fannie Mae representatives have confirmed that: 1) they understand it is the sole responsibility of Fannie Mae to ensure that the information provided is complete, accurate and up to date; 2) they have provided Sustainalytics with all relevant information; and 3) any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Fannie Mae.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The

[1] Fannie Mae, "Form 10-K, Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934, for the fiscal year ended December 31, 2022", at: https://www.fanniemae.com/media/46276/display
[2] The Organization has communicated to Sustainalytics that it believes the Social MBS is classified under the definition of ICMA's Secured Social Collateral Bond, as per the SBP of June 2023. The Organization has further confirmed to Sustainalytics that it has established a mechanism to prevent double counting of projects among the Social MBS issuances and other social or sustainability-labelled issuances.
[3] The Social Bond Principles are administered by the International Capital Market Association and are available at https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/
[4] The Fannie Mae Social Bond Framework is available on Fannie Mae's website at: https://capitalmarkets.fanniemae.com/sustainable-bonds/social-bonds
[5] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Fannie Mae has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Fannie Mae Social Bond Framework

Sustainalytics is of the opinion that the Fannie Mae Social Bond Framework is credible, impactful and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of Fannie Mae's Social Bond Framework:

- Use of Proceeds:
  - The eligible categories – Socioeconomic Advancement and Empowerment, and Affordable Housing – are aligned with those recognized by the SBP.
  - Under the Socioeconomic Advancement and Empowerment, and Affordable Housing categories, the Framework establishes the following criteria for eligible mortgages for individual borrowers, specific to Fannie Mae's Single-Family MBS:
    - 100% of the loans in the MBS are made to borrowers that satisfy at least one of the ten criteria of the Mission Index, which is divided into three high-level attributes of *income*, *borrower* and *property*, and;
    - The average loan in the MBS identifies with at least two of the three high-level attributes.
    - The Mission Index comprises the following ten criteria for individual mortgages:
      - Low-Income Borrowers: Targets borrowers earning 80% or less of the area median income (AMI).
      - Affordable Rental: Targets rental properties with at least one of the four (at least 25%) units in a single-family property made affordable to renters with incomes less than or equal to 80% of AMI.
        - The Organization has communicated to Sustainalytics that a renter earning 80% of AMI would pay no more than 30% of their monthly household income.
        - Sustainalytics recognizes the potential of programmes with rents below current rental thresholds to create a positive social impact, but notes that some proportion of the mortgages under this criteria may include market-rate units. Sustainalytics' view of best practice in this area is that at least 90% of the units in each property financed with allocated proceeds meet the affordability criteria. In this sense, Sustainalytics notes that some underlying mortgages under the Framework finance properties with as little as 25% of affordable housing units. In cases where financed properties comprise less than 90% of affordable housing units, Sustainalytics considers it best practice to apply a pro-rata approach for allocation based on the proportion of units that meet such criteria. Sustainalytics acknowledges that such a pro-rata approach is not viable in the case of securitizations; despite this constraint, financing buildings where less than 90% of units meet affordability criteria will nonetheless generate some positive social impact. Sustainalytics further encourages

the Organization to continue to report on the percentage of affordable units in the financed properties.[6]

- First-Time Homebuyers: Targets first-time homebuyers with incomes of 100% of AMI or less.
- Borrowers Residing in Underserved Markets: Targets borrowers currently residing in high poverty area census tracts.[7]
    - Sustainalytics notes that the High Poverty Area Census Tracts criteria rely on the noted set of areas to identify the target populations, and encourages the Organization to prioritize the securitization of assets that target below-median income populations.
- Special Purpose Credit Program Borrower: Targets borrowers who have received loans under a Special Purpose Credit Program (SPCP).[8]
    - Sustainalytics notes that mortgages aligned with the Special Purpose Credit Programs under the Equal Credit Opportunity Act typically target economically disadvantaged individuals, including minority residents of low- to moderate-income census tracts, residents of majority-Black census tracts, minority- or women-owned small business owners, consumers with limited English proficiency, and residents living on tribal lands.[9,10]
    - Sustainalytics acknowledges that the specific financial benefits of a given SPCP that is eligible under the Framework may vary, and may include closing cost assistance, downpayment assistance and mortgage insurance cost reduction.
    - Sustainalytics recognizes the social impact of such programmes in the region of financing and encourages Fannie Mae to focus on well-defined disadvantaged or low-income populations and report on the targeted populations and the social impact achieved for all such mortgages securitized under the Framework.
- Low-Income Census Tract: Targets borrowers earning 100% AMI or less, enabling them to own properties located in low-income census tracts.[11]
- Minority Tract: Targets borrowers earning 100% AMI or less, enabling them to own properties located in minority census tracts.[12]

[6] This is not intended to imply that it is preferable that affordable units be concentrated at high percentages in certain buildings. Indeed, there are benefits associated with buildings that have a mix of affordable units and units that do not meet affordability criteria. Sustainalytics' stance merely reflects the view that allocation only to affordable units creates a stronger link between bond proceeds and positive impact.
[7] Defined as any census tract with a poverty rate of at least 20% as measured by the five-year data series available from the Census Bureau's American Community Survey. More details at: https://www.census.gov/programs-surveys/acs
[8] Consumer Financial Protection Bureau, "1002.8 Special purpose credit programs", at: https://www.consumerfinance.gov/rules-policy/regulations/1002/8/
[9] Ibid.
[10] Consumer Compliance Outlook, "Overview of the Special Purpose Credit Programs under the Equal Credit Opportunity Act", at: https://www.consumercomplianceoutlook.org/2022/fourth-issue/overview-of-special-purpose-credit-programs/
[11] Sustainalytics notes that low-income census tracts are defined as census tracts or block numbering areas in which the median income does not exceed 80% AMI. Definitions are based on the prior year's metropolitan area definitions as determined by the Office of Management and Budget. More details at: https://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx#:~:text=Designated%20disaster%20areas%20are%20identified,payments%20were%20authorized%20by%20FEMA.
[12] Sustainalytics notes that minority census tracts are defined as census tracts that have a minority population of at least 30% and a median income of less than 100% of the AMI. Definitions are based on the prior year's metropolitan area definitions as determined by the Office of Management and Budget. More details at: https://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx#:~:text=Designated%20disaster%20areas%20are%20identified,payments%20were%20authorized%20by%20FEMA.

- High-Needs Rural: Targets individual borrowers, enabling them to own properties located in high-needs rural areas.[13]
  - Sustainalytics notes that the High-Needs Rural criteria rely on the noted set of rural areas to identify the target populations, and encourages the Organization to prioritize the securitization of assets that target below-median income populations.
- Manufactured Housing: Targets borrowers earning 100% AMI or less, and residing in manufactured homes.
- Designated Disaster Area: Targets borrowers earning 100% AMI or less, enabling them to own properties located in designated disaster areas.[14]

▪ Sustainalytics notes that Fannie Mae has in place a suite of home retention tools to assist borrowers during financial hardships which are applicable to all abovementioned criteria under the Mission Index.[15] In the event of such hardships, borrowers may be eligible for a range of tools and services to support the retention of their home, including loan modifications in the form of adjusted monthly payments, adjusted loan maturity dates, adjusted interest rates, forbearance of a portion of the principal balance or change in the product type. Sustainalytics views these services to represent material financial benefits to the borrowers eligible under the Mission Index criteria.

▪ Sustainalytics notes that all mortgages eligible under the Mission Index criteria follow Fannie Mae's underwriting standards that ensure that mortgage originators have adopted adequate policies and procedures to prevent unfair or predatory lending practices.[16]

▪ Sustainalytics acknowledges the potential of the Mission Index-based financing to enhance the accessibility of mortgages for the noted set of target populations.

– Specifically under the Affordable Housing category, Fannie Mae intends to finance its Multifamily Delegated Underwriting and Servicing MBS, which funds the following programmes:

▪ Restricted Affordable Housing, which requires at least one of the following criteria to be met:
  - At least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 50% of AMI as adjusted for family size;
  - At least 40% of all units have rent or income restrictions in place making them affordable to households earning no more than 60% of AMI as adjusted for family size;[17]

[13] Sustainalytics notes that high-needs rural areas are defined as any of the following regions provided the region is located in a rural area: i) Middle Appalachia; ii) The Lower Mississippi Delta; iii) A colonia; or iv) A tract located in a persistent poverty county and not included in Middle Appalachia, the Lower Mississippi Delta, or a colonia; where: *Middle Appalachia* means the "central" Appalachian subregion under the Appalachian Regional Commission's subregional classification of Appalachia; *Lower Mississippi Delta* means the Lower Mississippi Delta counties designated by Public Laws 100–460, 106–554, and 107–171, along with any future updates made by Congress; *colonia* means an identifiable community that meets the definition of a colonia under a federal, State, tribal, or local program; and *persistent poverty county* means a county in a rural area that has had 20 percent or more of its population living in poverty over the past 30 years, as measured by the most recent successive decennial censuses. More details at: https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/DTS-High-Needs-Counties-Map-Instructions.aspx

[14] Sustainalytics notes that designated disaster areas are identified by the Federal Housing Finance Agency based on the three most recent years' declarations by the Federal Emergency Management Agency (FEMA), where individual assistance payments were authorized by FEMA. More details at: https://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx#:~:text=Designated%20disaster%20areas%20are%20identified,payments%20were%20authorized%20by%20FEMA.

[15] In accordance with Fannie Mae's Servicing Guide, such financial hardships may result from unemployment, reduction in income (e.g., reduced overtime), increase in housing expenses (e.g., increase in property taxes), death of the primary or secondary wage earner in the household, long-term or permanent disability or serious illness of a family member, divorce or separation, employment transfer, natural disaster, or other hardship determined at the discretion of the mortgage servicer. More details at: https://servicing-guide.fanniemae.com/

[16] Fannie Mae, "Selling Guide", (2021), at: https://selling-guide.fanniemae.com/Selling-Guide/Doing-Business-with-Fannie-Mae/Subpart-A3-Getting-Started-with-Fannie-Mae/Chapter-A3-2-Compliance-with-Requirements-and-Laws/1645974031/A3-2-02-Responsible-Lending-Practices-09-01-2021.htm

[17] Except for New York City, where at least 25% of all units have rent or income restrictions in place, making them affordable to households earning no more than 60% of AMI as adjusted for family size.

- At least 20% of all units are subject to a Section 8 project-based housing assistance contract. Sustainalytics notes that units under Section 8 are made affordable to households that typically earn no more than 80% of AMI;[18] or
- The property is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent or income restrictions that require at least 20% of all units to have rent or income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size with rent not exceeding 30% of AMI as adjusted for family size.

▪ Unrestricted Affordable Housing, where at least 80% of all units must be affordable to households earning no more than 60% of AMI.
▪ Manufactured Housing Communities:
  - For such communities, the Organization's recent assessment report states that the median monthly all-in cost to own or rent a manufactured home is approximately 40% lower as compared to a standard site-built home in the US.[19] Sustainalytics further notes that the median annual household income of manufactured housing homeowners in 2019 (~USD 40,000) was approximately 42% lower than that of the median US household income in the same year (USD 68,703).[20] Sustainalytics acknowledges the potential of such homes to enhance affordable housing access to the intended target populations in the US, and encourages Fannie Mae to provide transparency on specific target populations served, where possible, by focusing on well-defined disadvantaged or low-income populations and reporting on the social impact achieved for all financed manufactured housing communities.
▪ Healthy Housing Rewards:
  - Under this programme, properties must have rent or income restrictions in place where at least 50% of the units are affordable to tenants with incomes of 80% of AMI or less.
▪ For all abovementioned rental affordable housing properties, the Framework considers a unit as "affordable" if the renter spends no more than 30% of their income on gross housing costs, including a utility allowance.
▪ Sustainalytics recognizes the potential of programmes that cap rents below current rental thresholds to create a positive social impact, but notes that some proportion of the securitized mortgages may include market-rate units. Sustainalytics' view of best practice in this area is that at least 90% of the units in each property financed with allocated proceeds meet the affordability criteria. In this sense, Sustainalytics notes that some underlying mortgages under the Framework finance properties with as little as 20% of affordable housing units. In cases where financed properties comprise less than 90% of affordable housing units, Sustainalytics considers it best practice to apply a pro-rata approach for allocation based on the proportion of units that meet such criteria. Sustainalytics acknowledges that such a pro-rata approach is not viable in the case of securitizations; despite this constraint, financing buildings where less than 90% of units meet affordability criteria will nonetheless generate some positive social impact. Sustainalytics further encourages the Organization to continue to report on the percentage of affordable units in the financed properties.

- Project Evaluation and Selection:
  - Fannie Mae has communicated to Sustainalytics that the selection of eligible mortgages in accordance with the eligibility criteria in the Framework is automated based on the disclosures provided by lenders upon loan delivery.

[18] Housing and Urban Development, "Housing Assistance Payment (HAP) Contracts", at: https://www.hud.gov/sites/dfiles/OCHCO/documents/52641ENG.pdf
[19] Fannie Mae, "Underserved Markets Plan" (p14-17), at: https://www.fanniemae.com/media/43411/display
[20] US Census Bureau, "Was Household Income the Highest Ever in 2019?", at: https://www.census.gov/library/stories/2020/09/was-household-income-the-highest-ever-in-2019.html#:~:text=Census%20Bureau%20Still%20Studying%20Full%20Impact%20of%20Pandemic%20on%20Income%20Data&text=The%20U.S.%20median%20household%20income,since%20we%20began%20recording%20it.

- Fannie Mae has internal processes to address environmental and social risks commonly associated with the eligible mortgages.
- Based on the above, Sustainalytics considers the process to be in line with market practice.

- Management of Proceeds:
  - Sustainalytics notes that the Social MBS issuances will securitize just those mortgages that align with the criteria defined in the Framework, effectively achieving full allocation of MBS proceeds at the time of issuance.
  - Based on the achievement of full allocation at issuance, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - Fannie Mae has communicated to Sustainalytics that the Social MBS proceeds will effectively be fully allocated immediately at issuance. The Organization will disclose security, loan-level and other product data at such time to its applicable mortgage securities websites. Fannie Mae will also provide investors with impact reporting data on an annual basis on its website.
  - Impact reporting will include relevant metrics such as the unpaid principal balance of loans financed detailed by the Mission Index criteria; and for Multifamily, the number of properties or units financed, detailed by area median income (AMI) distributions. For a complete list of potential impact metrics, refer to the Framework.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers Fannie Mae's reporting process to be in line with market practice.

Alignment with Social Bond Principles 2023

Sustainalytics has determined that the Fannie Mae Social Bond Framework aligns with the four core components of the SBP.

Section 2: Sustainability Mandate of Fannie Mae

Contribution to Fannie Mae's sustainability mandate

Fannie Mae's ESG strategy is focused on key environmental and social areas which include supporting affordable housing and housing market stability, promoting racial equity in housing finance and initiatives for green homes.

Under this strategy, Fannie Mae acquired 539,000 single-family mortgages for first-time homebuyers in 2022. Of the single-family mortgages acquired, more than one-third of the mortgages enabled access to housing for low-to moderate-income households.[21] In the same year, Fannie Mae provided USD 69 billion in liquidity in the multifamily mortgage market, with a significant majority of the housing units affordable to low-to-moderate income households.[22] Fannie Mae's programmes under the multifamily business model also includes equity investments for affordable housing rental units under the Low-Income Housing Tax Credit (LIHTC) programme for low- and very low-income households. Between 2018 and 2022, Fannie Mae made USD 3.2 billion in LIHTC equity investments to support the creation or preservation of nearly 80,000 rental units across over 1,000 properties, with a focus on underserved markets.[23] Furthermore, as a federally chartered corporation, Fannie Mae is mandated by the Federal Housing Finance Agency (FHFA) to promote equitable access to affordable housing amongst low- and moderate-income families, minority communities and underserved populations, through housing targets set forth by FHFA for single-family and multifamily housing segments.[24,25]

Fannie Mae's sustainability strategy also includes promoting environmentally beneficial improvements to housing units through its Green programmes. Through these loan programmes, Fannie Mae encourages investments in single-family and multifamily properties that have received a third-party certification, and existing single-family and multifamily properties with efficiency improvements or renewable energy

[21] Fannie Mae, "Environmental, Social and Governance Report 2022", at: https://www.fanniemae.com/media/48156/display
[22] Ibid.
[23] Ibid.
[24] Ibid.
[25] Fannie Mae, "Form 10-K, Annual Report", (2022), at: https://www.fanniemae.com/media/46276/display

generation.[26,27,28] In 2022, Fannie Mae financed over 11,600 and 43,600 multifamily rental units under its Green Rewards Mortgage Loans and the Green Building Certification Mortgage Loans, respectively.[29] Furthermore, Fannie Mae has also established an Equitable Housing Finance Plan which is aimed at promoting racial equity in housing finance. This plan includes multiple initiatives that are focused on three areas that include: i) helping consumers prepare for sustainable home ownership and quality rental housing through establishing strong financial and credit foundations; ii) removing unnecessary obstacles in purchasing or renting homes; and iii) helping homeowners or tenants maintain housing status by withstanding crises.[30]

Sustainalytics is of the opinion that the Fannie Mae Social Bond Framework is aligned with the Organization's overall sustainability mandate and initiatives and will further its action on its key social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the Social MBS issued under the Framework will securitize mortgages that are expected to have a positive social impact. However, Sustainalytics is aware that such eligible mortgages could also lead to negative environmental and social outcomes. Some key social risks possibly associated with the Single-Family Mortgages may include issues involving predatory lending and the exacerbation of social inequities within the communities in which financing is provided. Additional potential issues applicable to: i) the Multifamily Mortgages; and ii) the Affordable Rental criteria under the Mission Index (Single Family) include risks related to land use, biodiversity, waste management, effluent, emissions, occupational health and safety, and community relations.

Sustainalytics is of the opinion that Fannie Mae is able to manage or mitigate potential risks through implementation of the following:

- To address risks related to predatory lending and inequitable housing, the Department of Housing and Urban Development (HUD), the FHFA, the Securities and Exchange Commission (SEC) and the US Treasury have regulatory authority over Fannie Mae.[31] FHFA and HUD oversee Fannie Mae's compliance with the fair lending and anti-discrimination provisions of applicable laws such as the Fair Housing Act, Equal Credit Opportunity Act and the Safety and Soundness Act.[32] Fannie Mae's underwriting and appraisal guidelines are also periodically reviewed by the HUD to check for compliance with the provisions of the Fair Housing Act.[33] Additionally, Fannie Mae requires all creditors from whom they purchase mortgage loans to comply with applicable local, state and federal laws, such as the Truth in Lending Act which mandates creditors to determine the borrowers' ability to repay mortgages.[34] Fannie Mae's responsible lending practices include underwriting standards that aim to ensure that the loan originators have policies and processes in place to prevent unfair or predatory lending practices, such as through internal controls that assess the borrowers' ability, willingness and capacity to repay and extend loans based on the borrowers' risk appetite.[35]
- Additionally, Fannie Mae has also established an Enterprise Risk Management (ERM) framework, in alignment with the FHFA's advisory guidelines, to address its exposure to various risk categories including credit, market, liquidity, operational, strategic, legal and operational risks. The ERM Framework also guides Fannie Mae's underwriting standards for its single-family and multifamily divisions. Fannie Mae is also in the process of integrating climate risk considerations in its ERM framework by incorporating a process for identifying, assessing and managing climate-related risks and opportunities in its business practices.[36]
- Fannie Mae addresses environmental risks related to multifamily properties through its underwriting practices that include a three-tier assessment process comprising an independent property appraisal based on the Uniform Standards of Professional Appraisal Practice, an environmental assessment to ensure the property is environmentally sound, and an independent physical needs

[26] Sustainalytics notes that Fannie Mae added Single-Family Solar Loans under its MBS programme in June 2023. More details at: Fannie Mae, "Fannie Mae Single-Family Green Bond Framework", at: https://capitalmarkets.fanniemae.com/media/20626/display
[27] Fannie Mae, "Fannie Mae Multifamily Green Bond Framework", at: https://multifamily.fanniemae.com/media/14271/display
[28] Fannie Mae, "Environmental, Social and Governance Report 2022", at: https://www.fanniemae.com/media/48156/display
[29] Ibid.
[30] Ibid.
[31] Fannie Mae, "Form 10-K, Annual Report", (2022), at: https://www.fanniemae.com/media/46276/display
[32] FHFA, "Enterprise Fair Lending and Fair Housing Compliance", at: https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Enterprise-Fair-Lending-and-Fair-Housing-Compliance.aspx
[33] Fannie Mae, "Form 10-K, Annual Report", (2022), at: https://www.fanniemae.com/media/46276/display
[34] Ibid.
[35] Fannie Mae, "Selling Guide", (2021), at: https://selling-guide.fanniemae.com/Selling-Guide/Doing-Business-with-Fannie-Mae/Subpart-A3-Getting-Started-with-Fannie-Mae/Chapter-A3-2-Compliance-with-Requirements-and-Laws/1645974031/A3-2-02-Responsible-Lending-Practices-09-01-2021.htm
[36] Fannie Mae, "Form 10-K, Annual Report", (2022), at: https://www.fanniemae.com/media/46276/display

assessment to assess property conditions.[37] Fannie Mae also requires all multifamily properties securing a mortgage loan to have a phase 1 environmental site assessment that includes identifying potential environmental risks and the measures required to mitigate them.[38]

- Regarding risks related to emissions, effluents, waste, and occupational health and safety hazards Sustainalytics notes that the laws and regulations of the US provide stringent oversight of construction activities, including the US Occupational Health and Safety Act[39] and the Resource Conservation and Recovery Act.[40]
- Sustainalytics notes the underlying properties are based in the US, which is recognized as a Designated Country by the Equator Principles, and are subject to robust environmental and social governance systems, legislation and institutional capacity for protecting the environment and communities, including conducting stakeholder engagement for projects with potentially adverse environmental impacts.[41]

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Fannie Mae has implemented adequate measures and is well positioned to address environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

Both use of proceeds categories are aligned with those recognized by SBP. Sustainalytics has focused below where the impact is specifically relevant in the local context.

Importance of affordable housing in the US

Housing is both a critical social determinant of health and a human right. Affordable housing is a crucial issue in the US, with rental affordability near historic lows and housing costs becoming increasingly untenable for both renters and buyers.[42] According to a 2023 report published by the Joint Center for Housing Studies, 21.6 million households of renters in the US paid over 30% of their income and 11.6 million paid over 50% of their income for rent between 2019 and 2021, thus, making them severely cost burdened.[43] Additionally, housing prices are rapidly growing compared to the wage growth in 80% of U.S. markets.[44] This situation is particularly challenging for low-income households, which are disproportionately affected by high housing costs, compromising other necessities like food and healthcare.[45] Further compounding the issue is the decrease in single-family housing starts, which fell by 10.8% in 2022.[46] This decline contributes to a growing housing shortfall in the US, limiting the availability of affordable single-family homes On the other hand, in 2022, the multifamily housing sector showed greater resilience with a 15.5% increase in multifamily housing starts.[47] In 2023, the country witnessed the highest rate of multifamily development in 50 years, with 1 million multifamily units under construction.[48] However, the rise in the median rent for newly-constructed multifamily units creates affordability challenges for low- to moderate-income renters.[49]

To improve access to affordable housing, the US federal government has implemented solutions such as: i) reducing barriers to building housing; ii) promoting commercial-to-residential affordable housing conversion;

[37] Fannie Mae, “Celebrating Over 30 Years of the Fannie Mae DUS Program”, at: https://capitalmarkets.fanniemae.com/media/4046/display
[38] Fannie Mae, “Environmental Due Diligence Requirements”, at: https://multifamily.fanniemae.com/media/11476/display
[39] US Department of Labor, “OSH Act of 1970”, at: https://www.osha.gov/laws-regs/oshact/completeoshact
[40] US Environmental Protection Agency, “Resource Conservation and Recovery Act (RCRA) Overview”, at: https://www.epa.gov/rcra
[41] Equator Principles, “About the Equator Principles”, (2022), at: https://equator-principles.com/about-the-equator-principles
[42] Kenan Institute of Private Enterprise, “The Affordable Housing Crisis in 2023: Where Do We Stand, and What are the Solutions?”, (2023), at: https://kenaninstitute.unc.edu/commentary/the-affordable-housing-crisis-in-2023-where-do-we-stand-and-what-are-the-solutions/
[43] Joint Center for Housing Studies of Harvard University, “The State of the Nation’s Housing”, (2023), at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf
[44] Kenan Institute of Private Enterprise, “The Affordable Housing Crisis in 2023: Where Do We Stand, and What are the Solutions?”, (2023), at: https://kenaninstitute.unc.edu/commentary/the-affordable-housing-crisis-in-2023-where-do-we-stand-and-what-are-the-solutions/
[45] Habitat for Humanity, “2023 State of the Nation’s Housing report”, (2023), at: https://www.habitat.org/costofhome/2023-state-nations-housing-report-lack-affordable-housing
[46] Joint Center for Housing Studies, “Home Prices and Rents Remain High, as Steep Interest Rates Lock Homeowners in Place and Slow Construction”, (2023), at: https://www.jchs.harvard.edu/press-releases/home-prices-and-rents-remain-high-steep-interest-rates-lock-homeowners-place-and
[47] Joint Center for Housing Studies, “2023 State of the Nation’s Housing report”, (2023), at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf
[48] Joint Center for Housing Studies, “Home Prices and Rents Remain High, as Steep Interest Rates Lock Homeowners in Place and Slow Construction”, (2023), at: https://www.jchs.harvard.edu/press-releases/home-prices-and-rents-remain-high-steep-interest-rates-lock-homeowners-place-and
[49] Joint Center for Housing Studies, “2023 State of the Nation’s Housing report”, (2023), at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf

and iii) expanding homeownership support.[50] The Housing Supply Action Plan promotes zoning reforms that allows more affordable housing.[51] In the rental market, the government has assured rental assistance for an additional 100,000 low-income households.[52] In 2023, the federal government's budget plans to allocate USD 7.5 billion for new project-based rental assistance for extremely low-income households, USD 10 billion to encourage state and local governments to reduce development barriers for affordable housing and USD 10 billion to support first-time and first-generation homebuyers.[53]

Given the above context, Fannie Mae is projected to contribute significantly to lowering borrowing costs, enhancing the availability of and broadening the market for affordable and sustainable housing in the US. Sustainalytics believes that the actions specified in the Framework will have a beneficial social impact and will be instrumental in furthering the US government's efforts to facilitate greater access to affordable housing.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Fannie Mae Social Bond Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	**SDG**	**SDG target**
Socioeconomic Advancement and Empowerment	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

Conclusion

Fannie Mae has developed the Fannie Mae Social Bond Framework under which it may issue social mortgage-backed securities backed by eligible mortgages that are aimed at enhancing access to affordable housing among the target populations in the US. Sustainalytics considers that the mortgages supported by the issuance of mortgage-backed securities are expected to provide a positive social impact.

The Fannie Mae Social Bond Framework outlines a process by which proceeds will be allocated and commitments have been made for ongoing reporting on the impact of securitized mortgage loans. Sustainalytics considers that the Fannie Mae Social Bond Framework is aligned with the overall sustainability mandate of the Organization and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 10 and 11. Additionally, Sustainalytics considers that Fannie Mae has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with eligible mortgages.

Based on the above, Sustainalytics is confident that Fannie Mae is well positioned to issue social mortgage-backed securities and that the Fannie Mae Social Bond Framework is robust, transparent, and in alignment with the four core components of the Social Bond Principles 2023.

[50]The White House, "Biden-Harris administration Announces Actions to Lower Housing Costs and Boost Supply", (2023), at: https://www.whitehouse.gov/briefing-room/statements-releases/2023/07/27/biden-harris-administration-announces-actions-to-lower-housing-costs-and-boost-supply/
[51]The White House, "Remarks by National Economic Advisor Lael Brainard Addressing the Challenge of Housing Affordability At the National Housing Conference", (2023), at: https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/12/07/remarks-by-national-economic-advisor-lael-brainard-addressing-the-challenge-of-housing-affordability-at-the-national-housing-conference/
[52]Ibid.
[53]The White House, "Fact Sheet: President Biden's Budget Lowers Housing Costs and Expands Access to Affordable Rent and Home Ownership", (2023), at: https://www.whitehouse.gov/omb/briefing-room/2023/03/09/fact-sheet-president-bidens-budget-lowers-housing-costs-and-expands-access-to-affordable-rent-and-home-ownership/

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