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Second Party Opinion

Fannie Mae Multifamily Green Bond Framework

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Location: U.S.	**Sector:** Financial services

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

See Alignment Assessment for more detail.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Strengths

Fannie Mae's programs encourage greater investment toward energy use and emission reductions for both new and existing buildings. Fannie Mae has more than a decade-long track record of green MBS investments and is the largest issuer of green financing in the U.S. Given Fannie Mae's national reach and influence, the scale of its green MBS program can encourage property developers and other financiers to direct investment toward similar projects in the U.S.

Fannie Mae's Green Rewards program incentivizes multifamily building owners to improve the energy and water efficiency of their buildings. This could promote renovations that lead to lower costs for tenants. The program rewards renovations that may not have occurred otherwise, addressing the landlord-tenant problem.

Weaknesses

Eligibility requirements for Group 2 green building certifications may not deliver significant efficiency benefits compared to local requirements in some jurisdictions. Fannie Mae cannot cater eligibility requirements to individual state building codes, which means that some buildings may qualify for green building certifications while not representing significant improvements over state and local codes.

Areas to watch

Physical climate risk is not directly addressed in the financing framework. However, we note Fannie Mae has a climate policy and strategy at the corporate level. Fannie Mae's portfolio faces diverse physical climate risks including floods, wildfire, extreme weather, and sea level rise. Such impacts could undermine the benefits achieved through energy efficiency enhancements financed through the framework.

Eligible Green Projects Assessment Summary

Eligible projects under Fannie Mae's multifamily green bond framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Green buildings	**Light green**
Green Building Certification: The property backing the loan must have been awarded a certification recognized by Fannie Mae within the last five years prior to loan closing.	
Green Rewards: The property owner must commit to installing energy and water efficiency measures that are projected to reduce the whole property's energy and water consumption combined by at least 30%, inclusive of a minimum of 15% reduction in energy consumption.	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

The Federal National Mortgage Association (Fannie Mae), chartered in 1938 by the U.S. Congress, is the largest U.S. government-sponsored enterprise (GSE). Fannie Mae's mission is to facilitate equitable and sustainable access to homeownership and quality affordable rental housing across the U.S., supporting both single-family and multifamily housing. It provides market liquidity by purchasing mortgages from qualified originators which it then securitizes and sells to investors as mortgage-backed securities (MBS) with guarantees. Fannie Mae does not lend directly to consumers.

Fannie Mae serves the U.S. housing market through its single family (1-4 residential units) and the multifamily mortgage businesses. The Fannie Mae multifamily mortgage business has a Delegated Underwriting and Servicing (DUS) program that uses a national network of DUS lenders to finance multifamily rental units, manufactured housing communities, and cooperatives. Fannie Mae Multifamily only provides mortgage loans for owners to refinance or acquire existing multifamily properties, and supplemental loans for existing mortgage holders. Fannie Mae does not provide mortgage loans to developers to construct new properties.

Material Sustainability Factors

Climate transition risk

Energy use in buildings is a major contributor to climate change, representing approximately a third of global greenhouse gas emissions on a final-energy-use basis for all building types, according to the International Energy Agency (IEA), but we note that Fannie Mae's financed properties are strictly residential. Embedded emissions from building materials and new construction may also impede progress toward future low-carbon climate resiliency goals. This leaves the sector highly susceptible to the growing public, political, legal, and regulatory pressure to accelerate climate goals. Building occupiers may face higher energy bills as power prices rise, as well as higher capital expenditure (capex) as upgrades are required to accommodate the energy transition and meet more stringent efficiency standards. Incremental climate-related investments can require significant capital outlays but will potentially reduce the risk of obsolescence due to changes in regulation or climate goals.

Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. Although they vary by location, these include acute risks like wildfires, floods, and storms, which are becoming more frequent and severe, as well as chronic risks such as long-term changes in temperature, precipitation patterns, and rising sea levels. Acute and chronic risks could damage properties or place tenant health and safety at risk, as well as require investments to manage potential effects or, in severe cases, relocation of tenants. The aggregate impact is moderate since the type, number, and magnitude of these risks varies by region, but highly exposed regions may be subject to physical climate risk exposure. Most participants have some insurance coverage, but it could become more difficult to secure insurance for the most-exposed assets in the future, absent adaptation.

Access and affordability

Low housing stock and lack of affordable options can severely influence livelihoods, especially vulnerable, low-income populations that can face the threat of homelessness. Access and affordability are especially important for residential tenants in areas where rents can account for a large percentage of income. While not addressed by Fannie Mae's program, which targets the residential real estate space, lack of accessibility and affordability of commercial properties can also hinder the sustainable growth of local communities.

Impact on communities

Properties, and by extension the owners, are inherently part of the communities in which they operate because they provide an essential service and can shape communities economically and socially. The residential sector is particularly important to communities, where affordable housing and gentrification can alter communities' social fabric and can be challenging to remediate.

Issuer And Context Analysis

The green building project categories aim to address climate transition risk, which we consider a material sustainability factor for Fannie Mae. We note that because not all green projects prohibit the use of fossil fuels and that there is slight risk of emissions lock-in. However, this is mitigated by stringent energy efficiency requirements of the eligible projects.

The multifamily green financing program addresses climate transition risk. The program transforms rental housing in the U.S. to be more environmentally sustainable through green building certifications, as well as energy efficiency and water conservation retrofits. As building regulations on sustainability performance become more stringent, owners and building managers face pressure to improve the energy, water, and emissions performance of assets. Fannie Mae has adopted several climate transition goals and programs for its loan portfolio, such as reducing emissions, energy, and water use, and improving indoor air quality.

As Fannie Mae has recently increased its energy efficiency baselines for the green buildings certification program, new financed properties may have stronger energy efficiency performance than those in its current portfolio. The framework's focus on financing multifamily housing green building projects ties directly to transition risk for the issuer's loan portfolio through financed risk and the exposure of the buildings themselves.

Fannie Mae’s Green Rewards program addresses the landlord-tenant problem by providing an additional incentive for landlords to renovate and retrofit their multifamily housing buildings. Although tenants are often the ones who benefit from lower utility bills from retrofits, landlords pay the cost of the capital expenditure. The Green Rewards program reduces the burden of those expenditures for landlord.

The framework does not directly address physical climate risk in Fannie Mae's loan portfolio, though the issuer’s selling and servicing guides include exposure assessments and insurance requirements. Buildings across the U.S. have exposure to many physical climate impacts, including damage from acute events, such as floods, intense storms, and wildfires, and chronic impacts from water stress and rising sea levels. In our view, including physical climate risk criteria and mitigation parameters reduces the risk of damage to buildings in the loan portfolio, ensuring that the sustainability benefits of the financings are realized. The framework lacks criteria to address these risks, although we note the issuer's climate strategy to address them is built around quantifying its financial and business exposure, mitigation capabilities, insurance requirements, and awareness among its stakeholders. Fannie Mae has established a climate impact team to assess physical climate risk on an ongoing basis and is identifying strategies to mitigate the results. Beyond this, the issuer offers mortgage products to provide affordable ways to finance resiliency upgrades to help homes better withstand damaging weather, though they are not covered by the framework.

Fannie Mae contributes to greater access and affordability of housing in the U.S. by increasing mortgage market liquidity and indirectly funding affordable housing through various programs. While this topic is not the target the framework, Fannie Mae indirectly supports affordable housing in the U.S. through its purchase and securitization of mortgages, freeing up capital for lenders to provide financing for potential borrowers. Additionally, it has extensive programs in place that aim to lower the cost of housing. Considering the declining affordability of housing in the U.S., entities such as Fannie Mae that support liquidity in the mortgage market is rising in importance. Apart from providing liquidity to the affordable housing market, it offers unique housing solutions to make loans affordable for low-income and first-time buyers, with schemes such as low-down-payment home mortgage offerings to credit-deprived and underserved populations through its proprietary automated underwriting system, though we note that these solutions may be more relevant for Fannie Mae’s single-family programs than its multifamily programs.

Fannie Mae’s financing for multifamily affordable housing through various programs and solutions covers housing with rent or income-based restrictions on financed properties. These properties are also covered under the Low-Income Housing Tax Credit (LIHTC) program--a federal program focused on affordable housing for low- and very-low-income households. Since Fannie Mae's reentry into LIHTC equity investment in 2018 through 2022, Fannie Mae has provided approximately $3.2 billion in LIHTC equity investments, supporting the creation or preservation of nearly 80,000 rental units at over 1,000 properties in 49 of 50 states. We consider preserving and creating affordable housing units integral to maintaining the social fabric of communities. Tenants at these properties include disadvantaged, displaced, or underprivileged communities. In our view, such lending practices mitigate gentrification and income segregation risk.

Alignment Assessment

This section provides an analysis of the framework's alignment to green bond principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Use of proceeds

The framework's project categories are assessed as Light green, and Fannie Mae commits to use the proceeds of issuance only for qualifying mortgages. Please refer to the analysis of eligible projects section for more information on our analysis of the environmental benefits of the expected use of proceeds.

✓ Process for project evaluation and selection

The process for project evaluation and selection is described in the framework. We consider loans purchased by Fannie Mae as eligible green mortgage loans if they comply with Fannie Mae's requirements and contain all required modifications and exhibits to the loan agreements. These include documents that outline the green building certifications or energy-saving characteristics of the buildings in question. Environmental and social risks are managed in line with the rest of Fannie Mae's portfolio, as outlined in the issuer's selling and servicing guides. The borrower must also commit to benchmark and report the property's annual energy and water performance to Fannie Mae.

✓ Management of proceeds

The management of proceeds from the Green MBS is consistent across Fannie Mae's multifamily securitization programs. Fannie Mae commits to acquire the mortgage loan from the lender if it conforms to all requirements stated in the Fannie Mae Selling and Servicing Guide or has received approval for a waiver. Once acquired, Fannie Mae securitizes the loan into a fully guaranteed MBS and sells it to the general MBS investor community. The process differs from the typical use and management of proceeds associated with green bond issuances, in that Fannie Mae has already made the eligible investments prior to green bond issuance and uses green bond proceeds to recoup the funds. To track and manage loan proceeds of its Green Rewards loans, Fannie Mae uses an escrow account that is overseen by its lender partners. When a loan closes, 125% of the anticipated renovation costs, which come entirely from the amount financed for the eligible green mortgage of the improvements, are put into the escrow account by the lender Fannie Mae may, at its discretion, approve reduced escrows of 110% of the projected cost for solar PV installations if the borrower has obtained a document bid from a qualified vendor. After borrowers implement and prove that they have made their energy and water improvements, the lender then releases the funds from escrow. According to the issuer, there will not be unallocated proceeds.

✓ Reporting

Fannie Mae publicly reports a summary of its multifamily green MBS issuances, which includes the issue date, the amount, and relevant green building certifications. At the issuance level, Fannie Mae also discloses the estimated annual energy, emissions, and water savings for each of the loans. Additionally, the issuer actively provides more detailed allocation and impact reporting in its DUS public disclosure system on an ongoing basis, which is available to investors. These metrics include energy and water performance data on DUS Disclose for its loans, including energy and water use intensity. Proceeds from MBS issued under the framework will finance mortgage loans identified as consistent with the criteria in the framework, eliminating the need for reporting until full allocation. Fannie Mae has a successful track record of impact reporting for the past issuances with metrics for both environmental and social outcomes, which we view favorably.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Under the current framework, Fannie Mae expects the proceeds to be evenly split between the Green Rewards and Green Building Certifications categories. The issuer expects proceeds to be concentrated in the Group 2 Green Buildings Certifications category, with Group 1 and Towards Zero certification categories growing over time.

The eligible assets include loans that finance green certified properties or the retrofit of properties that increase energy efficiency and potentially also address other environmental attributes.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Fannie Mae's multifamily green bond financing framework, we assess the framework as Light green.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Green project categories

Green Buildings

Assessment	Description
Light green	**Green building certifications** Within the last five years prior to loan closing, the property backing the loan must have been awarded a certification recognized by Fannie Mae. Certifications fall into three groups depending on the level of energy reduction: • Towards Zero: Certified properties projected to use at least 50% less energy compared to the applicable baseline, plus ventilation requirements for new buildings. • Group 1: Certified properties projected to use at least 20% less energy compared to the applicable baseline, plus ventilation requirements for new buildings. • Group 2: Certified properties projected to use at least 5% less energy compared to the applicable baseline. **Green Rewards** Properties rewarding an owner's initiative to improve the energy and water efficiency of an existing multifamily property, including affordable, workforce, and senior housing. The property owner must commit to installing energy and water efficiency measures that are projected to reduce whole property energy and water consumption by at least 30%, inclusive of a minimum of 15% reduction in energy consumption. Eligible efficiency measures must be capital improvements to the property and include: • Energy-efficient heating, ventilation, and air conditioning (HVAC) systems; • Energy-efficient lighting; • Water-efficient fixtures, including WaterSense appliances; • Energy-efficient appliances such as ENERGY STAR ® refrigerators; and • Solar photovoltaic systems

Analytical considerations

- Green buildings support climate change mitigation by reducing greenhouse gas emissions. They also provide other benefits such as increasing energy efficiency, reducing water consumption, and improving waste management. The energy use associated with the existing building stock accounts for a significant portion of global emissions. However, construction activities introduce concerns related to the energy performance and emissions associated with building materials, as well as construction waste. Physical climate risks are material considerations for buildings, and new construction may raise biodiversity issues.
- We assign a shade of Light green to the eligible projects under Fannie Mae’s framework. Fannie Mae's project categories are geared toward improving the energy efficiency of new and existing buildings, either directly by incentivizing property owners to improve energy and water efficiency, or indirectly by providing preferential pricing to loans backed by properties that have green building certifications. The projects’ eligibility criteria exclude fossil fuel heating for the Green Rewards efficiency measures and may also address the landlord-tenant problem, which we view positively. While the required energy and water use performance improvements have quantitative thresholds for eligibility and may represent near-term transition measures, leading to a green shade, in their current state, they are not sufficiently ambitious to be fully consistent with a long-term view of a low-carbon and climate-resilient future. In addition, they do not address issues such as embodied emissions and physical climate risks.
- For green building certifications, Fannie Mae conducts a bi-annual market analysis and a technical evaluation to determine which certifications are eligible for inclusion. All certifications must be available nationally and have minimum energy performance standards to be considered. To date, the most popular multifamily green building certification is the Green Building Initiative's Green Globes program (30% of all certifications).
- In 2024, Fannie Mae updated the baseline thresholds for qualifying green building certifications. For new buildings, all certifications must require 5% lower energy usage than the ASHRAE 90.1-2019 standard. For existing buildings, all certifications must require 5% lower energy usage than the ASHRAE 90.1-2010 standard. While the updated thresholds represent an improvement from the 2004 standards that Fannie Mae used previously, there are still some localities in the country where energy codes are more stringent than the ASHRAE 90.1 2019 standard, as ASHRAE updates its standards every three years. For example, California, Texas, and Florida have historically received more than one-third of all Green MBS loans by both count and dollar value; California and Florida have relatively high building standards compared to other U.S. states, so properties that meet Fannie Mae’s Green MBS criteria in these states may not be built to have higher energy performance than what is required locally. While properties in these states may still qualify for the green MBS program, Fannie Mae has acknowledged that the green label may not necessarily provide additionality in terms of energy use reduction beyond local codes. Because Fannie Mae operates in every market across the U.S., it does not have the ability to limit some markets to different certifications than others based on state codes. This limits our opinion of the environmental benefit of the framework in some states.
- Although Fannie Mae cannot guarantee that all properties in all states that meet the Green MBS program requirements will be built to standards higher than regulatory requirements, the issuer’s size and nationwide scale ensure that the overall program improves the energy performance of buildings on a national level and thus provides an overall environmental benefit. Additionally, because of Fannie Mae’s importance in the U.S. housing market, some green building certification organizations have previously made changes to their criteria or released entirely new certifications to ensure alignment with Fannie Mae’s requirements. Given the significance of the changes to Fannie Mae’s framework, which include the exclusion of fossil fuel heating and the adoption of more stringent ASHRAE standards, we expect certification organizations to once again update their requirements to align with Fannie Mae’s, though this shift may only happen in the medium term (three to five years).
- Fannie Mae's role in U.S. housing markets is unique, as the entity does not originate loans or lend money directly to borrowers. Instead, the company acquires mortgage loans made by lenders in accordance with its standards then issues guaranteed mortgage-backed securities backed by those loans. For this reason, Fannie Mae is not involved in the permitting or construction of housing developments, limiting the entity's influence and oversight into energy efficiency considerations for new builds. We take this into account when determining the shade for the entity's green building project category.
- With a minimum energy efficiency improvement requirement of 15%, the Green Rewards category falls short compared to the requirements to fully achieve to a low-carbon future, but does represent a transition step in the near term. Efficiency of building envelopes need to improve 30% by 2025 to keep pace with increased building size and energy demand, in addition to improvements in lighting and appliances and increased renewable heat sources. That said, the water use reductions that are possible through the green rewards category may also have accompanying energy use reductions--we note that a 15% reduction in water use leads to an energy use reduction of 4% on average.
- The climate and environmental impacts of new buildings and the associated supply-chain, such as construction materials, is linked with deforestation and biodiversity loss. The framework does not directly address these environmental risks.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

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