SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

MORTGAGE FINANCE

Sustainability Accounting Standard

Sustainable Industry Classificaton System™ (SICS™) #FN0202

Prepared by the
Sustainability Accounting Standards Board®

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Provisional Version

MORTGAGE FINANCE

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly-listed corporations in the U.S. in disclosing material sustainability issues for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization and is accredited to set standards by the American National Standards Institute (ANSI).

SASB is developing standards for more than 80 industries in 10 sectors. SASB's standards-setting process includes evidence-based analysis with in-depth industry research and engagement with a broad range of stakeholders. The end result of this process is the creation of a complete, industry-specific accounting standard which accurately reflects the material issues for each industry.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for Mortgage Finance.

SASB Standards are comprised of (1) disclosure guidance and (2) accounting standards on sustainability topics for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory fillings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB's disclosure guidance identifies sustainability topics at an industry level, which may be material— depending on a company's specific operating context— to a company within that industry.

Each company is ultimately responsible for determining which information is material and is therefore required to be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB's accounting standards provide companies with standardized accounting metrics to account for performance on industry-level sustainability topics. When making disclosure on sustainability topics, companies adopting SASB's accounting standards will help to ensure that disclosure is standardized and therefore useful, relevant, comparable, and auditable.

Industry Description

Companies in the Mortgage Finance Industry lend capital to individual and commercial customers with property as collateral. Loans are typically securitized and issued to investors.

Guidance for Disclosure of Material Sustainability Topics in SEC filings

1. Industry-Level Material Sustainability Topics

For the Mortgage Finance Industry, SASB has identified the following material sustainability topics:

- **Environmental Risk to Mortgaged Properties**
- **Transparent Information & Fair Advice for Customers**
- **Responsible Lending & Debt Prevention**
- **Management of the Legal & Regulatory Environment**

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."[1]

SASB has attempted to identify those sustainability topics that evidence suggests may be material for all companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what is material to it.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."[2]

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."

In determining whether a trend or uncertainty should be disclosed, the SEC has stated that management should use a two-part assessment based on probability and magnitude:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.
- If a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

Companies should consider making disclosure on sustainability topics as a complete set in the MD&A, in a sub-section titled **"Sustainability Accounting Standards Disclosures."**[3]

b. Other Relevant Sections of Form 10-K

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[1] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

[2] C.F.R. 229.303(Item 3030)(a)(3)(ii).

[3] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

In addition to the MD&A section, companies should consider disclosing sustainability information in other sections of Form 10-K, as relevant, including:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Specifically Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

  Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State, and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations targeting discharge of materials into the environment or primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filling company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

Guidance on Accounting of Material Sustainability Topics

For sustainability topics in the Mortgage Finance Industry, SASB identifies two categories of accounting metrics: 1) Quantitative and 2) Discussion and Analysis.

SASB recommends that each company consider using these sustainability accounting metrics when disclosing its performance with respect to each of the sustainability topics it has identified as material.

As appropriate—and consistent with Rule 12b-20[4]—for each sustainability topic, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy and comparability of the data reported. Where not addressed by the specific accounting metrics, but relevant, the registrant should discuss the following related to the topic:

[4] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading."

- the registrant's **strategic approach** to managing performance on material sustainability issues;
- the registrant's **competitive positioning**;
- the **degree of control** the registrant has;
- any **measures the registrant has undertaken** or **plans to undertake** to improve performance; and
- data for registrant's **last three completed fiscal years** (when available).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainability Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it consider the materiality of the sustainability issues that SASB has identified for those industries and disclose the associated SASB accounting metrics.

Users of the SASB Standards

The SASB Standards are intended for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act)[5], for use in SEC filings, including, without limitation, annual reports on Form 10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Nevertheless, disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities in which the registrant has a controlling interest and therefore are consolidated for financial reporting purposes (controlling interest is generally defined as ownership of 50% or more of voting shares);[6]
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that such registrant considers the information necessary for investors to understand its performance with respect to sustainability issues (typically this disclosure would be limited to risks and opportunities associated with these entities).

[5] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10 million in assets.

[6] See US GAAP consolidation rules (Section 810).

Reporting Format

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparison of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed "activity metrics" —may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for users of SASB accounting metrics (e.g., investors) in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant – however, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.

Where relevant, SASB recommends specific activity metrics that – at a minimum – should accompany SASB Sustainability Accounting Metric disclosures to aid investors in interpretation, analysis, and benchmarking.

For the Financials Sector, metrics measuring revenue, returns, margins, and regulatory capital are relevant for normalizing and analyzing SASB disclosures. Because these and other relevant financial metrics are readily available in financial statements and from financial data vendors, SASB does not specify activity metrics for the industries within the Financials Sector.

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables like the imperfectness of third-party reporting systems or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may be necessary for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company and, therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward Looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as forward looking and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

Assurance

In reporting on SASB Standards, it is expected that registrants report with the same level of rigor, accuracy, and responsibility as all other information contained in their SEC filings.

SASB encourages registrants to use independent assurance (attestation), for example, an Examination Engagement as described in AT Section 701.

The following sections contain the technical protocols associated with each accounting metric such as guidance on definitions, scope, accounting guidance, compilation, and presentation.

The term “shall” is used throughout this Standard to indicate those elements that reflect SASB’s mandatory disclosure requirements. The terms “should” and “may” are used to indicate guidance, which, although not mandatory, provides a recommended means of disclosure.

Table 1. Material Sustainability Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Environmental Risk to Mortgaged Properties	Number and value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas	Quantitative	Number (#), U.S. dollars ($)	FN0202-01
	Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting	Discussion and Analysis	n/a	FN0202-02
	Amount and percentage of credit risk for mortgage loans that is attributable to default risk from weather-related natural catastrophes, by geographic region	Quantitative	U.S. dollars ($), percentage (%)	FN0202-03
Transparent Information & Fair Advice for Customers	Description of variable compensation structure of loan originators	Discussion and Analysis	n/a	FN0202-04
	Number and value of mortgages issued to minorities	Quantitative	Number (#), U.S. dollars ($)	FN0202-05
	Number and value of mortgages provided to low or moderate-income individuals/families	Quantitative	Number (#), U.S. dollars ($)	FN0202-06
	Amount of fines and settlements associated with violation of the mortgage industry provisions of Regulation Z (Truth in Lending Act) relating to communications to customers[7]	Quantitative	U.S. dollars ($)	FN0202-07
Responsible Lending & Debt Prevention	Number and value of Qualified Mortgages (QMs), by minority status and income classification	Quantitative	Number (#), U.S. dollars ($)	FN0202-08
	Number and value of mortgages of the following types: (1) Hybrid or Option ARM (2) Prepayment Penalty (3) Higher Rate Overall, by minority status, and by income classification	Quantitative	Number (#), U.S. dollars ($)	FN0202-09
	Ratio of amount of first mortgage principal reduction to amount of foreclosed mortgages	Quantitative	Ratio in U.S. dollars ($)	FN0202-10
	Number of: (1) modifications, (2) foreclosures, (3) short sales or deeds in lieu of foreclosure, and (4) total mortgages	Quantitative	Number (#)	FN0202-11
	Foreclosure rate by segment: subprime, non-subprime jumbo, non-subprime conventional, and nonconventional	Quantitative	Percentage (%)	FN0202-12
Management of the Legal & Regulatory Environment	Amount of fines and settlements associated with mortgage industry regulations[8]	Quantitative	U.S. dollars ($)	FN0202-13

[7] Note to **FN0202-07** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

[8] Note to **FN0202-13** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

Environmental Risk to Mortgaged Properties

Description

An increase in the frequency of extreme weather events associated with climate change may have an adverse impact on the mortgage finance industry. Specifically, hurricanes, floods, and other climate change-related events have the potential to lead to missed payments and loan defaults, while also decreasing the value of underlying assets. Disclosure of overall exposure, loan forgiveness programs, and the incorporation of climate change into lending analysis will allow shareholders to determine which mortgage finance firms are best positioned to protect value in light of environmental risks.

Accounting Metrics

FN0202-01. Number and value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas

.01 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.

- The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.

.02 FEMA special flood hazard areas (SFHAs) are defined as land areas covered by the floodwaters of the base flood on National Flood Insurance Program (NFIP) maps. The SFHA is the area where the NFIP's floodplain management regulations must be enforced, and the area where the mandatory purchase of flood insurance applies. The SFHA includes Zones A, AO, AH, A1-30, AE, A99, AR, AR/A1-30, AR/AE, AR/AO, AR/AH, AR/A, VO, V1-30, VE, and V.

FN0202-02. Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting

.03 The registrant shall describe how it has incorporated climate change and other environmental risks into its mortgage origination underwriting processes, where these risks include:

- The increased frequency and severity of weather-related natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (floods), and climatological events (e.g., heat waves, cold waves, droughts, and wildfires)
- The occurrence of geophysical events (e.g., earthquakes and volcanic eruptions)

.04 Specifically, the registrant shall disclose how and if these risks affect its origination and underwriting models and decisions, including:

- How the risk impacts the valuation of collateral, such as accounting for inherent risks due to location or assessing for the implementation of basic adaptive measures (e.g., reinforcement, hurricane shutters).
- How natural disaster risks affect credit risk analysis, including if the registrant assumes that increases in natural disaster frequency and severity will increase the likelihood of default due to properties being un- or under-insured.

FN0202-03. Amount and percentage of credit risk for mortgage loans that is attributable to default risk from weather-related natural catastrophes, by geographic region

.05 The registrant shall disclose the expected loss (in U.S. dollars) and percentage of total expected loss given default (in U.S. dollars) attributable to:

- Mortgage loan default and delinquency due to weather-related natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (floods), and climatological events (e.g., heat waves, cold waves, droughts, and wildfires) and excluding geophysical events (e.g., earthquakes and volcanic eruptions)

.06 The registrant shall use the basic formula that expected loss = probability of default * loss given default * exposure at default, or equivalent.

.07 The registrant shall provide this amount and percentage by geographic region, where regions are determined by the registrant, but which may include: Gulf Coast, California, Northeast, Mountain, Midwest, etc.

Transparent Information & Fair Advice for Customers

Description

The Mortgage Reform and Anti-Predatory Lending Act established significant consumer protection laws in the wake of the 2008 financial crisis. The new regulations seek to limit the predatory lending practices that encouraged qualified and unqualified borrowers to assume subprime mortgages. In addition, the law prohibits mortgage originators from receiving compensation that is tied to the value of the loan and requires that additional disclosures be given to borrowers. Mortgage finance companies that are able to provide transparent information and fair advice are more likely to protect shareholder value.

Accounting Metrics

FN0202-04. Description of variable compensation structure of loan originators

.08 The registrant shall disclose how the compensation of loan officers relates to the terms and conditions of loans, such as size of the mortgage loan, interest rates, up-front points or fees, or the ability of the loan to be securitized.

.09 The registrant shall describe relevant aspects of the compensation structure, including the use of bonuses, commissions, pooled compensation, profit-sharing, or other financial incentives for loan originators, officers, or brokers.

- The registrant shall consider compensation provided directly to the loan originator from a consumer to be within the scope of disclosure.

.10 Loan originators are defined per the Federal Reserve's Regulation Z as persons who, for compensation or other monetary gain, or in expectation of compensation or other monetary gain, arranges, negotiates, or otherwise obtains an extension of consumer credit for another person.

FN0202-05. Number and value of mortgages issued to minorities

.11 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.

- The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.

.12 Race and ethnicity categories shall be based upon Office of Management and Budget "Standards for the Classification of Federal Data on Race and Ethnicity," but classification shall be done by self-identification (e.g., during the application process).

- Race categories include: American Indian or Alaska Native, Asian, Black or African American, Native Hawaiian or Other Pacific Islander, and White.
- Ethnicity categories include: "Hispanic or Latino" and "Not Hispanic or Latino."

.13 Minority is defined according to the Federal Financial Institutions Examination Council as: (1) all races other than White and (2) Whites of Hispanic or Latino origin.

- For mortgage applications where applicants are of one or more race or ethnicity, and/or for applicants where there are joint applicants of different races or ethnicities, the registrant shall follow the categorization process used in FFIEC Home Mortgage Disclosure Act (HMDA) disclosure.

FN0202-06. Number and value of mortgages provided to low or moderate-income individuals/families

.14 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.

- The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.

.15 Low or moderate income individuals/families are as defined by the Federal Financial Institutions Examination Council:

- Income is classified with respect to the median family income of a census tract, where tracts correspond to classifications defined by the HMDA and CRA regulations.
- If the median family income of a mortgage holder is <50% and >0 of the median family income of the tract in which it is located, then the income level is low.
- If the median family income of a mortgage holder is ≥50% and <80% of the median family income of the tract in which it is located, then the income level is moderate.

.16 Where relevant, the scope of disclosure should include Community Reinvestment Act-compliant lending.

FN0202-07. Amount of fines and settlements associated with violation of the mortgage industry provisions of Regulation Z (Truth in Lending Act) relating to communications to customers

.17 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with Regulation Z (Truth in Lending Act) provisions relating to disclosure communications to customers, including Subpart E.

.18 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

NOTE TO FN0202-07

.19 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, insider trading, etc.) of fines and settlements.

.20 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

.21 The registrant should disclose any corrective actions specifically related to providing clear, transparent, and timely communications to customers about mortgage risks, terms, and fees.

Responsible Lending & Debt Prevention

Description

Between 2003 and 2006, the percentage of mortgage originations that were subprime increased from eight to 20. This increase was driven by strategic decisions to steer borrowers into more risky products as well as to offer loans to those who were previously unable to qualify. These practices, which represented an industry shift away from traditional mortgages to the creation of financial instruments that were sold to third parties, increased the risk of default and led to an estimated four million foreclosures between 2007 and December 2012. Further, these deceptive and predatory practices led to major losses and high-profile bankruptcies of major lenders and contributed to a tarnished reputation of the industry. Responsible lending and debt prevention, in addition to contributing to a company's social capital, can have a direct impact on a company's performance and profitability. Enhanced disclosure on key elements of lending practices, including the number and value of Dodd-Frank Qualified Mortgages, foreclosure rates, and the prevalence of different mortgage types, will allow shareholders to determine which companies are better positioned to protect value.

Accounting Metrics

FN0202-08. Number and value of Qualified Mortgages (QMs), by minority status and income classification

.22 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.

- The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.

.23 Dodd-Frank QMs are defined according to the Consumer Finance Protection Bureau (CFPB) and Department of Housing and Urban Development (HUD) and aligned with the "ability-to-repay" criteria set out in the Truth in Lending Act (TILA).

.24 The registrant shall disclose the aggregate number and value of Dodd-Frank QMs, the number and value issued to minorities, and the number and value issued to low or moderate-income individuals/families, summarized in the following table:

Table 1. Dodd-Frank Qualified Mortgages

	Number	Loan Value	Percent of total
Total QMs			
Minority held			
Low/moderate income held			

.25 Race and ethnicity categories shall be based upon Office of Management and Budget "Standards for the Classification of Federal Data on Race and Ethnicity," but classification shall be done by self-identification (e.g., during the application process).

- Race categories include: American Indian or Alaska Native, Asian, Black or African American, Native Hawaiian or Other Pacific Islander, and White.
- Ethnicity categories include: "Hispanic or Latino" and "Not Hispanic or Latino."

.26 Minority is defined according to the Federal Financial Institutions Examination Council as: (1) all races other than White and (2) Whites of Hispanic or Latino origin.

- For mortgage applications where applicants are of one or more race or ethnicity, and/or for applicants where there are joint applicants of different races or ethnicities, the registrant shall follow the categorization process used in FFIEC Home Mortgage Disclosure Act (HDMA) Disclosure.

.27 Low or moderate-income individuals/families are as defined by the Federal Financial Institutions Examination Council:

- Income is classified with respect to the median family income of a census tract, where tracts correspond to classifications defined by the HMDA and CRA regulations.
- If the median family income of a mortgage holder is <50% and >0 of the median family income of the tract in which it is located, then the income level is low.
- If the median family income of a mortgage holder is ≥50% and <80% of the median family income of the tract in which it is located, then the income level is moderate.

FN0202-09. Number and value of mortgages of the following types: (1) Hybrid or Option ARM, (2) Prepayment Penalty, (3) Higher Rate; overall, by minority status, and by income classification

.28 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.

- The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.

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29 Disclosure shall be summarized in the following table:

Table 1. Mortgage loans by feature

Feature	Number	Loan Value	Minority held		Low/moderate Income held	
			Number	Value	Number	Value
Hybrid or Option ARM						
Higher Rate						
Prepayment Penalty						

.30 Hybrid or option adjustable-rate mortgages (ARMs) are defined as mortgages with interest rate resets of less than five years, negative amortization, and/or interest-only payment schedules.

.31 Higher-rate mortgages are defined as those that are at least 300 basis points above treasuries of comparable maturity.

.32 Prepayment penalties are defined as mortgage contracts that include a clause that assesses a penalty if the mortgage is paid in full within a certain time period.

FN0202-10. Ratio of amount of first mortgage principal reduction to amount of foreclosed mortgages

.33 The registrant shall calculate the ratio of principal reduction to foreclosures as the dollar amount of first lien principal reduction (forgiveness) divided by the amount of foreclosed assets.

.34 Principal reduction shall apply to modifications of first lien mortgages and exclude junior lien forgiveness and write-offs associated with short sales or deeds in lieu of foreclosure.

FN0202-11. Number of: (1) modifications, (2) foreclosures, (3) short sales or deeds in lieu of foreclosure, and (4) total mortgages

.35 The registrant shall calculate the aggregate number of first lien and junior lien mortgages that the registrant considered assets during the fiscal year, and the number that were modified, entered foreclosure status, or were subject to short sale or deed in lieu of foreclosure (“deed in lieu”).

.36 Modifications are defined as mortgages where one or more of the following was changed from the original terms: the principal amount, the payment amount, the length of the term of the loan, the interest rate (e.g., the rate was lowered or changed from a floating to a fixed rate), or the assessment of fees or penalties.

.37 Foreclosures are defined as when a borrower has defaulted on a mortgage and sale of the underlying property asset is forced, through legal or statutory means.

- The scope of disclosure shall include consumer real estate assets that entered foreclosure during the fiscal year, regardless of whether they were sold or held for sale.

.38 Short sales are defined as transactions in which the registrant agrees to accept less than the full amount of the debt owed by the borrower and releases its lien on the asset.

.39 A deed in lieu of sale is defined as a property asset for which the borrower conveys all interest to the registrant to satisfy a mortgage loan that is in default and avoid foreclosure.

.40 Modifications, foreclosures, and short sales and deed in lieu rates shall be summarized according to the following table format:

Table 1. Mortgage settlements by type

Settlement type	Number	Percent of total
Modification		
Foreclosure		
Short Sale/Deed in Lieu		
Total Mortgages		

FN0202-12. Foreclosure rate by segment: subprime, non-subprime jumbo, non-subprime conventional, and nonconventional

.41 The registrant shall calculate the foreclosure rate as the number of mortgage loan assets that entered foreclosure during the fiscal year divided by the total number of mortgage loan assets.

.42 Foreclosure rates shall be summarized according to the following table format:

Table 1. Foreclosure rate by loan segment

Loan Segment	Number	Percent of total
Subprime		
Non-subprime jumbo		
Non-subprime conventional		
Nonconventional		

.43 Subprime mortgages are those held by borrowers with credit ratings of 640 or lower and are typically nonconventional mortgages.

.44 Non-subprime jumbo mortgages are prime mortgages that exceed the loan limits standards imposed by the Federal Housing Finance Agency and therefore cannot be backed by government sponsoring entities (e.g., Fannie Mae or Freddie Mac).

.45 Non-subprime conventional mortgages include prime mortgages that conform to Federal Housing Finance Agency standards to be backed by government sponsoring entities (e.g., Fannie Mae or Freddie Mac), as well as Alt-A mortgages (those that have a risk profile between prime and subprime).

.46 Nonconventional mortgages are those that are not reported in 0.50 above and are typically insured or guaranteed by the federal government through the following agencies: the Federal Housing Administration, the U.S. Department of Veterans Affairs, and the U.S. Department of Agriculture.

Management of the Legal & Regulatory Environment

Description

Mortgage finance companies continue to face significant penalties and lawsuits associated with the 2008 mortgage crisis. Although many of the practices implicated in these settlements did not violate existing regulations, they were indicative of significant failures in governance. The resulting impact on the individual companies and the economy as a whole demonstrates the risks to shareholder value associated with failures to assess risk accurately and to comply with regulations. Enhanced disclosure of fines and settlements associated with legal and regulatory compliance will allow investors to accurately assess performance on this issue.

Accounting Metrics

FN0202-13. Amount of fines and settlements associated with mortgage industry regulations

.47 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with enforcement of mortgage industry regulations, including provisions of Dodd-Frank (e.g., revisions to Regulation X and Regulation Z enforced by the Consumer Financial Protection Bureau).

.48 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

NOTE TO FN0202-13

.49 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., predatory lending, fraud, violation of loan officer compensation rules, etc.) of fines and settlements.

.50 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

.51 Disclosure shall exclude fines and settlements, reported above in FN0202-07, which are associated with violation of Regulation Z (Truth in Lending Act) mortgage industry provisions relating to communications to customers.

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