MORTGAGE FINANCE
Research Brief

Sustainable Industry Classification System™ (SICS™) #FN0202
Research Briefing Prepared by the
Sustainability Accounting Standards Board®

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MORTGAGE FINANCE
Research Brief

SASB’s Industry Research Brief provides evidence for the material sustainability issues in the industry. The brief opens with a summary of the industry, including relevant legislative and regulatory trends and sustainability risks and opportunities. Following this, evidence for each material sustainability issue (in the categories of Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance) is presented. SASB’s Industry Brief can be used to understand the research and data underlying SASB Sustainability Accounting Standards. For accounting metrics and disclosure guidance, please see SASB’s Sustainability Accounting Standards. For information about the legal basis for SASB and SASB’s standards development process, please see the Conceptual Framework.

SASB identifies the minimum set of sustainability issues likely to be material for companies within a given industry. However, the final determination of materiality is the onus of the company.

Related Documents

- Financials Sustainability Accounting Standards
- Industry Working Group Participants
- SASB Conceptual Framework
- Example of Integrated Disclosure in Form 10-K

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To ensure that shareholders are able to evaluate these factors, mortgage finance companies should report on the material sustainability risks and opportunities that may affect value in the near and long term. Enhanced reporting will provide stakeholders with a more holistic (and comparable) view of performance that includes both positive and negative externalities, and the non-financial forms of capital that mortgage finance companies rely on to create long-term value. Firms that work to improve performance on these issues will position themselves well for the future.

The sustainability issues that will drive competitiveness within the mortgage finance industry include:

- Incorporating the increased frequency of extreme weather events associated with climate change into lending practices and risk analysis
- Ensuring that consumers receive fair and transparent information
- Incorporating responsible lending practices and working to prevent defaults
- Ensuring compliance with an increasingly stringent regulatory framework

The extent to which these sustainability factors impact value will become increasingly clear as policymakers continue to emphasize consumer protection, accountability, enhanced transparency, and responsible lending practices.

**INTRODUCTION**

The mortgage finance industry provides an essential public good in enabling consumers to purchase homes, and contributes to an overall home ownership rate of 65.5 percent in the U.S. However, the recent financial crisis and the subsequent regulatory developments demonstrate how non-financial forms of capital contribute to market value. Further, the management (or mismanagement) of material sustainability factors has been demonstrated to affect traditional valuation by impacting revenue, assets, liabilities, and cost of capital.
INDUSTRY SUMMARY

The mortgage finance industry provides a range of services relating to real estate finance. The primary products are residential and commercial mortgages, while other services offered include: title and property insurance, closing and settlement services, and valuation. In addition, mortgage finance firms own, manage, and finance real estate related investments such as mortgage pass-through certificates and collateralized mortgage obligations.¹

The industry continues to face challenges associated with the 2008 mortgage crisis. Overall revenues have fallen in recent years as the market for non-agency issued mortgage-backed securities fell from $765.9 billion in 2007 to $34.4 billion in 2011.¹ Companies have traditionally relied on the sale of securities and other products to the public to generate capital for additional loans. A decrease in demand for these products has led to a decline in lending. However, the negative impacts of the mortgage crisis have been dampened by an increase in mortgage-backed securities issued by government-sponsored entities, which reached $1.6 trillion in 2011.² Industry profits have also been impacted by ongoing write-downs due to elevated levels of delinquency and financial settlements arising from government and legal action for practices that contributed to the crisis. Growth remains closely associated with aggregate household debt, per capita disposable income, the housing price index, and interest rates. Companies will also face a more stringent regulatory environment as new rules issued by the Consumer Financial Protection Bureau come in to effect in 2014.

LEGISLATIVE & REGULATORY TRENDS IN THE MORTGAGE FINANCE INDUSTRY

In 2010, the U.S. Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in response to the financial crisis of 2008. Dodd-Frank seeks to promote financial stability through increased accountability and transparency, and to increase and consolidate the regulation of financial services. In addition, the Act includes consumer protection reforms and provides for the creation of the Consumer Financial Protection Bureau.²

Title XIV of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act, contains specific regulations concerning the mortgage finance industry. This legislation targeted the predatory practices that made it difficult for borrowers to pay off mortgages in the event that real estate values decreased. The following section provides a summary of the key provisions established under Dodd-Frank and the subsequent regulatory efforts by the Consumer Financial Protection Bureau. These actions will impact shareholder value and amplify the importance of social capital and strong governance in the mortgage finance industry.

¹ A list of five companies representative of this industry and its activities appears in Appendix I.
² This section does not purport to contain a comprehensive review of all regulations related to this industry, but is intended to highlight some ways in which regulatory trends are impacting the industry.
The Dodd-Frank Act requires that all mortgage originators be qualified, registered, and licensed, and prohibits tying compensation to the face value of the loan. Under the new rules, mortgage lenders are, in most cases, prohibited from making a loan unless they can reasonably determine that the borrower will be able to repay it. A failure to make adequate assessments can be used as a defense by a borrower to recoup damages. The Act also requires that additional disclosures be made at the onset of a mortgage as well as on monthly loan statements.

Specific provisions of the Mortgage Reform and Anti-Predatory Lending Act were further clarified and strengthened in January 2013, with the introduction of complementary rules by the Consumer Financial Protection Bureau. These regulations, which are effective as of 2014, will prohibit lenders from offering home loans that have deceptive teaser rates or require no documentation from borrowers. In most cases, mortgage originators will be restricted from charging excessive upfront fees, making loans with balloon payments, and offering mortgages that will lead a borrower to have payments that exceed 43 percent of income. Loans that are issued in compliance with these rules are considered ‘qualified,’ and will be immune from legal action. These regulations are intended to eliminate practices that encouraged lenders to ignore borrowers’ ability to repay a loan as long as companies could sell the mortgage to third parties. Further, these rules provide for a legal ‘safe harbor’ that should encourage banks to begin lending again after a period of legal ambiguity that followed the Dodd-Frank Act.3

SUSTAINABILITY-RELATED RISKS & OPPORTUNITIES

Recent trends in the regulatory environment indicate a significant shift toward consumer protection, disclosure, and accountability. Legislation passed in response to the 2008 mortgage crisis demonstrates the potential for further alignment between the interests of society and those of long-term investors. As new policies mandate more responsible management of social capital, firms that are able to navigate new regulations while addressing all forms of capital—not just financial—will be better positioned to protect shareholder value in the future.

The following section provides a brief description of how the mortgage finance industry depends on each form of capital and the specific sustainability issues that will drive performance, including evidence and value impact. The issues are divided into five categories: Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance. A table indicating the nature of the value impact and evidence of interest from stakeholders appears in Appendix IIA. Appendix IIB expands on the channels of financial

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3 This section does not purport to contain a comprehensive review of all regulations related to this industry, but is intended to highlight some ways in which regulatory trends are impacting the industry.
impacts of each sustainability issue and the recommended disclosure framework appears in Appendix III.

ENVIRONMENT

The environmental dimension of sustainability includes corporate impact on the environment, either through the use of non-renewable natural resources as input to the factors of production (e.g., water, minerals, ecosystems, and biodiversity) or through environmental externalities or other harmful releases in the environment, such as air and water pollution, waste disposal, and greenhouse gas emissions.

As a service industry, the mortgage finance industry does not rely heavily on natural resources nor does it generate a direct impact on the environment. Subsequently, the industry is not likely to face material risks or opportunities associated with traditional environmental concerns such as resource constraints, carbon pricing, or regulation. However, mortgage finance companies are exposed to the risk of property damage associated with natural hazards. As the frequency of extreme weather events associated with climate continues to increase, the potential for devalued loan portfolios and defaults is likely to increase.

Environmental Risk to Mortgaged Properties

The mortgage finance industry continues to evolve and heighten its ability to assess risk in the wake of the recent housing crisis. However, research indicates that these analyses do not accurately account for the risks associated with environmental events.

An increase in the frequency of extreme weather events associated with climate change coupled with other environmental events is likely to have an adverse impact on the mortgage finance industry. Specifically, hurricanes, floods, and other natural or man-made environmental 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 environmental risk into lending analysis will allow shareholders to determine which mortgage finance firms are best positioned to protect value in light of environmental risks.

Evidence

In 2013, CoreLogic examined the link between mortgage default risk and natural hazard risk. Controlling for traditional characteristics used by the mortgage industry, including credit worthiness, ability to pay, and equity level, the study found that natural hazard risk score is a statistically significant predictor of default. Specifically, the likelihood of default is twice as high for a high natural disaster-risk loan as it is for a low-risk loan.4

The potential for increased defaults associated with extreme weather was demonstrated in November 2012, when Hurricane Sandy impacted the Northeastern United States. After the storm, Queens and Staten Island, the two boroughs of New York City that suffered the most damage, experienced an increase in fore-
closure notices of 61 and 40 percent respectively. Following Hurricane Sandy, Wells Fargo announced that it may not release certain loan-loss reserves if the storm had a significant impact on its real estate loans. The company’s stock declined by 1.7 percent following the announcement.

The BP oil spill in the Gulf of Mexico also demonstrated the impact of an environmental event on home prices. Following the spill, homes along the affected coastline were expected to lose as much as $56,000 in value. In sum, losses were expected to total $648 million in 2010 and $3 billion over five years.

**Value Impact**

Mortgage finance companies are increasingly exposed to the risk of mortgage default due to environmental risks and natural hazards. Subsequently, companies could face reduced interest income and devalued mortgage portfolios on their balance sheets. Further, these risks are likely to correspond with a higher cost of capital and higher interest on mortgage-backed securities, thereby impacting profitability and market share.

**SOCIAL CAPITAL**

Social capital relates to the perceived role of business in society, or the expectation of business contribution to society in return for its license to operate. It addresses the management of relationships with key outside stakeholders, such as customers, local communities, the public, and the government. It includes issues related to access to products and services, affordability, responsible business practices in marketing, and customer privacy.

As the regulatory environment continues to evolve, the link between the mortgage finance industry and social capital will continue to strengthen. Subsequently, the management of social capital will increasingly impact corporate performance and shareholder value. Lenders should enhance disclosure on key elements of social capital, including practices in place to ensure fair advice and transparent information. Further, mortgage finance companies must demonstrate how responsible lending will help reverse a recent trend towards predatory practices and restore the industry’s social value in contributing to higher levels of home ownership in the U.S.

**Transparent Information & Fair Advice for Customers**

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 which 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.

Further, the longstanding Home Mortgage Disclosure Act continues to require financial institutions to disclose data about home purchases, home purchase pre-approvals, and refinancing applications. The intent of this Act is to help ensure that capital is allocated without discrimination through the reporting of demographic information, including gender, race, and income. In 2012, the Consumer Financial Protection Bureau announced that it would use all available means to pursue lenders that discriminate against consumers.⁸

Increased regulatory scrutiny and emphasis on transparency and fair advice suggests that mortgage finance companies that are able to ensure strong performance in this area will be better positioned to protect shareholder value. In order to demonstrate how this issue is managed, companies should disclose how compensation is structured for loan originators, the number of loans given to minorities and low income individuals/families, and fines associated with violations of the Truth in Lending Act.

Evidence

A 2013 study by the Woodstock Institute found that applications for either purchasing or refinancing a home were less likely to be approved if submitted by a female with a male cosigner compared to those submitted by a male with a female cosigner. The analysis, which examined 58,870 applications for home purchases and 198,522 applications for refinancing in the Chicago area, found that after controlling for loan-to-value ratio, female mortgage applicants were about eight percent less likely to have mortgages originated than males.⁹

In 2013, the Consumer Financial Protection Bureau and the Department of Justice filed a joint complaint against National City Bank for charging higher prices on mortgage loans to African-American and Hispanic borrowers than white borrowers with similar credit. The consent order, which is subject to court approval, will require PNC Bank, the successor to National City Bank, to pay $35 million in restitution to affected borrowers.¹⁰

In 2012, Wells Fargo agreed to pay at least $175 million to settle allegations that the company discriminated against black and Hispanic borrowers. The settlement involved roughly 34,000 minority borrowers who were charged higher fees or encouraged to undertake sub-prime mortgages when they could have qualified for prime mortgages. The agreement also settled a case brought by the Illinois Attorney General that claimed that Wells Fargo targeted minorities and minority neighborhoods for risky mortgages, and provided financial incentives for employees to steer borrowers into more costly and risky mortgages.¹¹

In 2011, Bank of America agreed to pay $335 million to settle similar claims relating to its Countrywide Financial unit. Countrywide loan officers charged higher fees and rates to more than 200,000 minority borrowers than to white borrowers with the same credit profile. For example, an investigation found that Hispanic
applicants in Los Angeles were charged “an average of $545 more in fees for a $200,000 loan” than their white counterparts, and $1,195 more when independent brokers processed applications for Countrywide.12

**Value Impact**

Mortgage finance companies that fail to provide transparent information and fair advice for customers are likely to experience litigation or regulatory actions that have the potential to increase general and administrative expenses and impose significant contingent liabilities. The issue may also affect companies’ ability to attract buyers for their securitized mortgage obligations, thereby leading to reduced market share. Further, negative publicity associated with poor performance in this area is likely to have a negative impact on a company’s intangible assets.

**Responsible Lending & Debt Prevention**

Between 2003 and 2006, the percentage of mortgage originations that were subprime increased from eight to 20.13 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 2012.14 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.

**Evidence**

In 2008, Countrywide Financial, the largest U.S. mortgage lender in the previous year, failed due to bad loans and was ultimately sold to Bank of America. Mortgages were the primary cause of a combined $258 billion in write-downs and credit losses for Bank of America and Citigroup between the third quarter of 2007 and the second quarter of 2011.15 These losses can be juxtaposed with recent delinquency rates that suggest that a shift towards more responsible lending practices will limit delinquencies and foreclosures, and help protect shareholder value. The number of homeowners that were 90 days or more behind in payments fell to 2.96 percent in the third quarter of 2012, which was the lowest level since 2008. In addition, the percentage of loans in foreclosure declined from 4.27 to 4.07 between the second and third quarter of 2012, the largest quarterly drop on record.16
Value Impact

A failure to ensure responsible lending to prevent debt and default on the part of borrowers can present a significant impact on a company’s profitability and valuation. Irresponsible lending practices significantly increase the risk of default on mortgage payments which leads to write-downs of corporate assets, the loss of interest income, and inability to meet interest expense paid to mortgage-backed securities holders. Subsequently, a company could experience a significant increase in the cost of obtaining capital and diminished shareholder value. Further, reputational damage is likely to increase the cost of obtaining capital, impair intangible assets, decrease market share, and diminish shareholder value.

HUMAN CAPITAL

Human capital addresses the management of a company’s human resources (employees and individual contractors), as a key asset to delivering long-term value. It includes factors that affect the productivity of employees, such as employee engagement, diversity, and incentives and compensation, as well as the attraction and retention of employees in highly competitive or constrained markets for specific talent, skills, or education. It also addresses the management of labor relations in industries that rely on economies of scale and compete on the price of products and services or in industries with legacy pension liabilities associated with vast workforces. Lastly, it includes the management of the health and safety of employees and the ability to create a safety culture for companies that operate in dangerous working environments.

Mortgage finance companies rely on human capital to maintain value. However, relative to other industries in the financial sector, these companies do not face specific material risks or opportunities associated with human capital.

BUSINESS MODEL & INNOVATION

This dimension of sustainability is concerned with the impact of environmental and social factors on innovation and business models. It addresses the integration of environmental and social factors in the value creation process of companies, including resource efficiency and other innovation in the production process, as well as product innovation and looking at efficiency and responsibility in the design, use-phase, and disposal of products. It includes management of environmental and social impacts on tangible and financial assets—either a company’s own or those it manages as the fiduciary for others.

The mortgage finance industry provides services that allow for home ownership and increased wealth generation. Innovation has been a key component of the industry’s success. However, the industry does not currently
face any material sustainability issues associated with business model and innovation.

**LEADERSHIP & GOVERNANCE**

As applied to sustainability, governance involves the management of issues that are inherent to the business model or common practice in the industry and that are in potential conflict with the interest of broader stakeholder groups (government, community, customers, and employees) and therefore create a potential liability, or worse, a limitation or removal of license to operate. This includes regulatory compliance, lobbying, and political contributions. It includes risk management, safety management, supply chain and resource management, conflict of interest, anti-competitive behavior, and corruption and bribery. It also includes risk of business complicity with human rights violations.

The mortgage finance industry continues to face significant shifts in the regulatory environment that indicate increased emphasis on strong governance. Companies in this industry should subsequently disclose the strategies and policies that are in place to ensure compliance, protect shareholder value, and to restore societal trust in the industry.

**Management of the Legal & Regulatory Environment**

The regulatory environment surrounding the mortgage finance industry continues to evolve. The Mortgage Reform and Anti-Predatory Lending provision of the Dodd-Frank Act and the complimentary rules established by the Consumer Financial Protection Bureau seek to eliminate practices that encouraged lenders to issue risky mortgages, which led to mortgage-backed securities that proved to be faulty. Further, legal safe harbor is provided for loans that comply with these new regulations, thereby reducing the risk of lawsuits and settlements that continue to plague the industry in the wake of the 2008 mortgage crisis.

Given the magnitude of recent settlements, and the continuing evolution of relevant regulations in the mortgage finance industry, enhanced disclosure of fines and settlements associated with legal and regulatory compliance will allow investors to accurately assess performance on this issue.

**Evidence**

In 2012, the federal government reached a $25 billion settlement with Ally Bank, Bank of America, Citi, J.P. Morgan Chase, and Wells Fargo over lawsuits that accused the defendants of, among other practices, engaging in ‘robo-signing’.17 More specifically, the suits...
claimed that the companies routinely signed
title documents without properly
reviewing them to ensure accuracy. Although
companies have fulfilled a majority of their
financial obligations associated with the settle-
ment, a December 2013, report found that Ci-
tibank, Bank of America, and JPMorgan Chase
failed seven tests of the settlement’s require-
ments, which focus on eliminating mistakes,
 misinformation, and lengthy delays in the loan
modification process.¹⁸

In addition, lenders continue to face additional
lawsuits relating to the sale of risky mortgage
securities during the mortgage crisis. In 2013,
Bank of America agreed to a $404 million
settlement with Freddie Mac to resolve all
residential mortgage repurchase agreements
and other claims related to loans sold between
2000 and 2009.¹⁹ This followed an $11.6
billion payment to Fannie Mae, which in-
cluded nearly $6.6 billion in loans that Bank of
America repurchased. JPMorgan Chase agreed
to pay $13 billion to settle allegations from the
U.S. Justice Department that it misled investors
and the public when it sold bonds backed by
faulty residential mortgages.²⁰

In 2012, claims by regulators, prosecutors, in-
vestors, and insurers against Bank of America,
JPMorgan Chase, Wells Fargo, and others were
estimated to reach $300 billion if the institu-
tions were to lose pending litigation.²¹ According
to data compiled by Bloomberg, the six
largest U.S. banks have experienced more than
$100 billion in legal costs since the financial
crisis, which exceeds all dividends paid to
shareholders in the past five years.²²

Value Impact

Failure to comply with current and future
regulations could present material implications
for individual companies and the industry as a
whole. Non-compliance can lead to significant
contingent liabilities, restrictions on certain
business activities, and an increase in general
and administrative expenses, thereby lower-
ing operational efficiency. In addition, negative
publicity could result in diminished reputation
and lead to an impairment of intangible assets,
lost trust and market share, and a higher cost
of capital.

SASB INDUSTRY WATCH LIST

The following section provides a brief descrip-
tion of sustainability issues that did not meet
SASB’s materiality threshold at present, but
could have a material impact on the mortgage
finance industry in the future.

Regulatory Capture &
Political Influence

The issue of regulatory capture and political
influence continues to be prominent in the
mortgage finance industry. Specifically, compa-
nies are widely seen as having had significant
influence on the development of new regulations since the 2008 financial crisis, through lobbying, contributions, and direct relationships with regulators.

The material implications of lobbying efforts and campaign contributions remain controversial. Specifically, there is little evidence on how these actions impact shareholder value, and whether the cost of these activities is outweighed by corporate gains. Additionally, the issue raises questions on the efficacy of lobbying for or against a regulation that protects near-term profits, but is misaligned with longer-term strategic investments and initiatives.

Although investor interest in the issue appears to be increasing, it is not clear whether shareholder resolutions requiring such disclosure will receive widespread support. Additionally, after indicating it as a priority issue for 2013, the SEC dropped the issue of political spending from its 2014 agenda.²³

Energy Efficient Mortgages

Relative to other industries, mortgage finance companies have limited reliance on environmental capital. However, the industry has the potential to leverage its position to help consumers reduce their environmental impact through energy efficiency improvements. Energy-efficient mortgages allow customers to qualify for larger loans which account for energy performance improvements, and the associated cost savings, while decreasing the risk of default. In addition, companies have the opportunity to partner with developers to increase the availability of energy-efficient housing.

The residential sector accounts for roughly 20 percent of what Americans spend on non-transport related energy.²⁴ A 2012 study by the American Council for an Energy-Efficient Economy found that energy efficiency could save consumers an average of $400 billion per year.²⁵ Further, a recent analysis by the Chapel Hill Center for Community Capital and the Institute for Market Transformation found that the risk of mortgage default is one-third lower for energy-efficient Energy Star rated homes.²⁶ Despite the potential for savings and decreased rates of default, most mortgages do not account for long-term energy savings in loan calculations. This practice persists despite the fact that utility bills are typically higher than either real estate taxes or homeowners insurance, but are currently not included in underwriting calculations.

Recognition of the potential for savings, would allow consumers to receive larger loans which could ultimately pay for energy upgrades and increase the value of the underlying asset. Further, this issue has become the focal point of proposed legislation, suggesting a future shift in the industry. The SAVE Act, was introduced to the Senate to improve the accuracy of mortgage underwriting used by federal agencies by including a home’s energy costs savings when determining the value of an energy efficient home.
# APPENDIX I: Five Representative Companies | Mortgage Finance

<table>
<thead>
<tr>
<th>COMPANY NAME (TICKER SYMBOL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wells Fargo (WFC)</td>
</tr>
<tr>
<td>JPMorgan Chase (JPM)</td>
</tr>
<tr>
<td>U.S. Bancorp (USB)</td>
</tr>
<tr>
<td>Bank of America (BAC)</td>
</tr>
<tr>
<td>Citigroup (C)</td>
</tr>
</tbody>
</table>

This list includes five companies representative of the Mortgage Finance Industry and its activities. Only companies that are US listed and where at least 20 percent of revenue is generated by activities in this industry according to the latest information available on Bloomberg Professional Service were included.
## APPENDIX IIA:
### Evidence for Material Sustainability Issues

<table>
<thead>
<tr>
<th>MATERIAL SUSTAINABILITY ISSUES</th>
<th>EVIDENCE OF INTEREST</th>
<th>EVIDENCE OF FINANCIAL IMPACT</th>
<th>FORWARD-LOOKING IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HM (1-100)</td>
<td>IWGs %</td>
<td>EI</td>
</tr>
<tr>
<td>ENVIRONMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental Risk to Mortgaged Properties</td>
<td>45</td>
<td>89</td>
<td>4</td>
</tr>
<tr>
<td>SOCIAL CAPITAL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transparent Information &amp; Fair Advice for Customers</td>
<td>33</td>
<td>95</td>
<td>2</td>
</tr>
<tr>
<td>Responsible Lending &amp; Debt Prevention</td>
<td>58</td>
<td>84</td>
<td>1</td>
</tr>
<tr>
<td>LEADERSHIP &amp; GOVERNANCE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management of the Legal &amp; Regulatory Environment</td>
<td>67</td>
<td>95</td>
<td>3</td>
</tr>
</tbody>
</table>

**HM:** Heat Map, a score out of 100 indicating the relative importance of the issue among SASB’s initial list of 43 generic sustainability issues. The score is based on the frequency of relevant keywords in documents (i.e., 10-Ks, shareholder resolutions, legal news, news articles, and corporate sustainability reports) that are available on the Bloomberg terminal for the industry’s publicly listed companies.

**IWGs:** SASB Industry Working Groups

**%:** The percentage of IWG participants that found the issue to be material. (-) denotes that the issue was added after the IWG was convened.

**Priority:** Average ranking of the issue in terms of importance. One denotes the most material issue. (N/A) denotes that the issue was added after the IWG was convened.

**EI:** Evidence of Interest, a subjective assessment based on quantitative and qualitative findings.

**EFI:** Evidence of Financial Impact, a subjective assessment based on quantitative and qualitative findings.

**FLI:** Forward Looking Impact, a subjective assessment on the presence of a material forward-looking impact.
## EVIDENCE OF FINANCIAL IMPACT

<table>
<thead>
<tr>
<th></th>
<th>REVENUE &amp; EXPENSES</th>
<th>ASSETS &amp; LIABILITIES</th>
<th>RISK PROFILE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Operating Expenses</td>
<td>Non-operating Expenses</td>
</tr>
<tr>
<td>ENVIRONMENT</td>
<td>Environmental Risk to Mortgaged Properties</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>SOCIAL CAPITAL</td>
<td>Transparent Information &amp; Fair Advice for Customers</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Responsible Lending &amp; Debt Prevention</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>LEADERSHIP &amp; GOVERNANCE</td>
<td>Management of the Legal &amp; Regulatory Environment</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

**APPENDIX IIB: Evidence of Financial Impact for Material Sustainability Issues**

- **HIGH IMPACT**
- **MEDIUM IMPACT**
- **LOW IMPACT**

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## APPENDIX III: Sustainability Accounting Metrics | Mortgage Finance

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Risk to Mortgaged Properties</td>
<td>Number and value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas</td>
<td>Quantitative</td>
<td>Number (#), U.S. dollars ($)</td>
<td>FN0202-01</td>
</tr>
<tr>
<td></td>
<td>Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN0202-02</td>
</tr>
<tr>
<td></td>
<td>Amount and percentage of credit risk for mortgage loans that is attributable to default risk from weather-related natural catastrophes, by geographic region</td>
<td>Quantitative</td>
<td>U.S. dollars ($), percentage (%)</td>
<td>FN0202-03</td>
</tr>
<tr>
<td>Transparent Information &amp; Fair Advice for Customers</td>
<td>Description of variable compensation structure of loan originators</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN0202-04</td>
</tr>
<tr>
<td></td>
<td>Number and value of mortgages issued to minorities</td>
<td>Quantitative</td>
<td>Number (#), U.S. dollars ($)</td>
<td>FN0202-05</td>
</tr>
<tr>
<td></td>
<td>Number and value of mortgages provided to low or moderate-income individuals/families</td>
<td>Quantitative</td>
<td>Number (#), U.S. dollars ($)</td>
<td>FN0202-06</td>
</tr>
<tr>
<td></td>
<td>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(^4)</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
<td>FN0202-07</td>
</tr>
<tr>
<td>Responsible Lending &amp; Debt Prevention</td>
<td>Number and value of Qualified Mortgages (QMs), by minority status and income classification</td>
<td>Quantitative</td>
<td>Number (#), U.S. dollars ($)</td>
<td>FN0202-08</td>
</tr>
<tr>
<td></td>
<td>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</td>
<td>Quantitative</td>
<td>Number (#), U.S. dollars ($)</td>
<td>FN0202-09</td>
</tr>
<tr>
<td></td>
<td>Ratio of amount of first mortgage principal reduction to amount of foreclosed mortgages</td>
<td>Quantitative</td>
<td>Ratio in U.S. dollars ($)</td>
<td>FN0202-10</td>
</tr>
<tr>
<td></td>
<td>Number of: (1) modifications, (2) foreclosures, (3) short sales or deeds in lieu of foreclosure, and (4) total mortgages</td>
<td>Quantitative</td>
<td>Number (#)</td>
<td>FN0202-11</td>
</tr>
<tr>
<td></td>
<td>Foreclosure rate by segment: subprime, non-subprime jumbo, non-subprime conventional, and nonconventional</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>FN0202-12</td>
</tr>
<tr>
<td>Management of the Legal &amp; Regulatory Environment</td>
<td>Amount of fines and settlements associated with mortgage industry regulations(^5)</td>
<td>Quantitative</td>
<td>U.S. dollars ($)</td>
<td>FN0202-13</td>
</tr>
</tbody>
</table>

\(^4\) Note to FN0202-07 – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

\(^5\) Note to FN0202-13 – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
APPENDIX IV: Analysis of 10-K Disclosures | Mortgage Finance

The following graph demonstrates an aggregate assessment of how the top ten U.S. domiciled companies, by revenue, in the commercial banks industry are currently reporting on material sustainability issues in the Form 10-K.

**DISCLOSURE ON MATERIAL SUSTAINABILITY ISSUES**

<table>
<thead>
<tr>
<th>MORTGAGE FINANCE</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Risk to Mortgaged Properties</td>
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<tr>
<td>Transparent Information &amp; Fair Advice for Customers</td>
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<tr>
<td>Responsible Lending &amp; Debt Prevention</td>
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<td>Management of the Legal &amp; Regulatory Environment</td>
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</tbody>
</table>

**NO DISCLOSURE** | **INDUSTRY-SPECIFIC**
References


2. Ibid.


