FINANCIALS SECTOR

MORTGAGE FINANCE

Sustainability Accounting Standard

Sustainable Industry Classification System® (SICS®) FN-MF

Prepared by the
Sustainability Accounting Standards Board

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MORTGAGE FINANCE

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About SASB

The SASB Foundation was founded in 2011 as a not-for-profit, independent standards-setting organization. The SASB Foundation's mission is to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors.

The SASB Foundation operates in a governance structure similar to the structure adopted by other internationally recognized bodies that set standards for disclosure to investors, including the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). This structure includes a board of directors ("the Foundation Board") and a standards-setting board ("the Standards Board" or "the SASB"). The Standards Board develops, issues, and maintains the SASB standards. The Foundation Board oversees the strategy, finances and operations of the entire organization, and appoints the members of the Standards Board.

The Foundation Board is not involved in setting standards, but is responsible for overseeing the Standards Board's compliance with the organization's due process requirements. As set out in the SASB *Rules of Procedure,* the SASB's standards-setting activities are transparent and follow careful due process, including extensive consultation with companies, investors, and relevant experts.

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SUSTAINABILITY ACCOUNTING STANDARDS BOARD

1045 Sansome Street, Suite 450
San Francisco, CA 94111
415.830.9220
info@sasb.org
sasb.org

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INTRODUCTION

Purpose of SASB Standards

The SASB's use of the term "sustainability" refers to corporate activities that maintain or enhance the ability of the company to create value over the long term. Sustainability accounting reflects the governance and management of a company's environmental and social impacts arising from production of goods and services, as well as its governance and management of the environmental and social capitals necessary to create long-term value. The SASB also refers to sustainability as "ESG" (environmental, social, and governance), though traditional corporate governance issues such as board composition are not included within the scope of the SASB's standards-setting activities.

SASB standards are designed to identify a minimum set of sustainability issues most likely to impact the operating performance or financial condition of the typical company in an industry, regardless of location. SASB standards are designed to enable communications on corporate performance on industry-level sustainability issues in a cost-effective and decision-useful manner using existing disclosure and reporting mechanisms.

Businesses can use the SASB standards to better identify, manage, and communicate to investors sustainability information that is financially material. Use of the standards can benefit businesses by improving transparency, risk management, and performance. SASB standards can help investors by encouraging reporting that is comparable, consistent, and financially material, thereby enabling investors to make better investment and voting decisions.

Overview of SASB Standards

The SASB has developed a set of 77 industry-specific sustainability accounting standards ("SASB standards" or "industry standards"), categorized pursuant to SASB's Sustainable Industry Classification System® (SICS®). Each SASB standard describes the industry that is the subject of the standard, including any assumptions about the predominant business model and industry segments that are included. SASB standards include:

1. **Disclosure topics** – A minimum set of industry-specific disclosure topics reasonably likely to constitute material information, and a brief description of how management or mismanagement of each topic may affect value creation.

2. **Accounting metrics** – A set of quantitative and/or qualitative accounting metrics intended to measure performance on each topic.

3. **Technical protocols** – Each accounting metric is accompanied by a technical protocol that provides guidance on definitions, scope, implementation, compilation, and presentation, all of which are intended to constitute suitable criteria for third-party assurance.

4. **Activity metrics** – A set of metrics that quantify the scale of a company's business and are intended for use in conjunction with accounting metrics to normalize data and facilitate comparison.

Furthermore, the *SASB Standards Application Guidance* establishes guidance applicable to the use of all industry standards and is considered part of the standards. Unless otherwise specified in the technical protocols contained in the industry standards, the guidance in the SASB Standards Application Guidance applies to the definitions, scope, implementation, compilation, and presentation of the metrics in the industry standards.

The *SASB Conceptual Framework* sets out the basic concepts, principles, definitions, and objectives that guide the Standards Board in its approach to setting standards for sustainability accounting. The *SASB Rules of Procedure* is focused on the governance processes and practices for standards setting.

Use of the Standards

SASB standards are intended for use in communications to investors regarding sustainability issues that are likely to impact corporate ability to create value over the long term. Use of SASB standards is voluntary. A company determines which standard(s) is relevant to the company, which disclosure topics are financially material to its business, and which associated metrics to report, taking relevant legal requirements into account[1]. In general, a company would use the SASB standard specific to its primary industry as identified in SICS® . However, companies with substantial business in multiple SICS® industries can consider reporting on these additional SASB industry standards.

It is up to a company to determine the means by which it reports SASB information to investors. One benefit of using SASB standards may be achieving regulatory compliance in some markets. Other investor communications using SASB information could be sustainability reports, integrated reports, websites, or annual reports to shareholders. There is no guarantee that SASB standards address all financially material sustainability risks or opportunities unique to a company's business model.

Industry Description

The Mortgage Finance industry provides an essential public good in enabling consumers to purchase homes, and contributes to the overall home ownership rate. Companies in the industry lend capital to individual and commercial customers with property as collateral. The primary products are residential and commercial mortgages, while other services offered include: mortgage servicing, title 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. 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.

[1] **Legal Note**: SASB standards are not intended to, and indeed cannot, replace any legal or regulatory requirements that may be applicable to a reporting entity's operations.

SUSTAINABILITY DISCLOSURE TOPICS & ACCOUNTING METRICS

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Lending Practices	(1) Number and (2) value of residential mortgages of the following types: (a) Hybrid or Option Adjustable-rate Mortgages (ARM), (b) Prepayment Penalty, (c) Higher Rate, (d) Total, by FICO scores above or below 660	Quantitative	Number, Reporting currency	FN-MF-270a.1
	(1) Number and (2) value of (a) residential mortgage modifications, (b) foreclosures, and (c) short sales or deeds in lieu of foreclosure, by FICO scores above and below 660	Quantitative	Number, Reporting currency	FN-MF-270a.2
	Total amount of monetary losses as a result of legal proceedings associated with communications to customers or remuneration of loan originators [2]	Quantitative	Reporting currency	FN-MF-270a.3
	Description of remuneration structure of loan originators	Discussion and Analysis	n/a	FN-MF-270a.4
Discriminatory Lending	(1) Number, (2) value, and (3) weighted average Loan-to-Value (LTV) ratio of mortgages issued to (a) minority and (b) all other borrowers, by FICO scores above and below 660	Quantitative	Number, Reporting currency, Percentage (%)	FN-MF-270b.1
	Total amount of monetary losses as a result of legal proceedings associated with discriminatory mortgage lending[3]	Quantitative	Reporting currency	FN-MF-270b.2
	Description of policies and procedures for ensuring nondiscriminatory mortgage origination	Discussion and Analysis	n/a	FN-MF-270b.3
Environmental Risk to Mortgaged Properties	(1) Number and (2) value of mortgage loans in 100-year flood zones	Quantitative	Number, Reporting currency	FN-MF-450a.1
	(1) Total expected loss and (2) Loss Given Default (LGD) attributable to mortgage loan default and delinquency due to weather-related natural catastrophes, by geographic region	Quantitative	Reporting currency, Percentage (%)	FN-MF-450a.2
	Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting	Discussion and Analysis	n/a	FN-MF-450a.3

[2] Note to **FN-MF-270a.3**– The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.

[3] Note to **FN-MF-270b.2**– The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Number and (2) value of mortgages originated by category: (a) residential and (b) commercial	Quantitative	Number, Reporting currency	FN-MF-000.A
(1) Number and (2) value of mortgages purchased by category: (a) residential and (b) commercial	Quantitative	Number, Reporting currency	FN-MF-000.B

Lending Practices

Topic Summary

The approach mortgage finance companies take when incentivizing employees, and how they communicate with customers is important for multiple reasons. First, the incentive structures and compensation policies of loan originators may unintentionally encourage them to promote lending products and services that are not in the best interest of their clients. Second, the lack of transparency provided to customers with respect to primary and add-on products may impact a company's reputation and invite regulatory scrutiny and costly litigation. Finally, poor performance on the first two elements could affect the characteristics of the portfolio of products, resulting in a high concentration of risky products sold. Mortgage Finance industry regulators established significant consumer protection laws in the wake of the 2008 financial crisis that seek to limit the predatory lending practices that encouraged qualified and unqualified borrowers to assume subprime mortgages. In addition, these laws prohibit mortgage originators from receiving compensation that is tied to the value of the loan and require 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. Enhanced disclosure on key elements of lending practices will allow shareholders to determine which companies are better positioned to protect value.

Accounting Metrics

FN-MF-270a.1. (1) Number and (2) value of residential mortgages of the following types: (a) Hybrid or Option Adjustable-rate Mortgages (ARM), (b) Prepayment Penalty, (c) Higher Rate, (d) Total, by FICO scores above or below 660

1 The entity shall disclose the (1) number and (2) value of residential mortgage loans held in the entity's portfolio of the following type: (a) Hybrid or Option Adjustable-rate mortgages (ARM), (b) Prepayment Penalty, (c) Higher Rate, (d) Total; each broken down by FICO score range: (i) below, or equal to, 660 and (ii) above 660.

1.1 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.

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

1.3 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.

2 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 entity holds as loan assets.

3 The entity may summarize the disclosure in the following table:

	NUMBER		LOAN VALUE	
	(FICO ≤ 660)	(FICO > 660)	(FICO ≤ 660)	(FICO > 660)
Hybrid or Option ARM				
Higher Rate				
Prepayment Penalty				
Total Residential Mortgages				

FN-MF-270a.2. (1) Number and (2) value of (a) residential mortgage modifications, (b) foreclosures, and (c) short sales or deeds in lieu of foreclosure, by FICO scores above and below 660

1 The entity shall disclose the (1) number and (2) value of (a) modifications, (b) foreclosures, (c) short sales or deeds in lieu of foreclosure held in the entity's portfolio of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans during the reporting period broken down by FICO score range: (i) below, or equal to, 660 and (ii) above 660.

1.1 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.

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

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

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

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

2 The entity may disclose the number and value of principal reduction modifications, as defined by the U.S. Federal Housing Finance Agency, included in the number and value of total modifications.

3 The entity may summarize the disclosure in the following table:

	NUMBER		LOAN VALUE	
	(FICO ≤ 660)	(FICO > 660)	(FICO ≤ 660)	(FICO > 660)
Modification				
Foreclosure				
Short Sale/Deed in Lieu				

FN-MF-270a.3. Total amount of monetary losses as a result of legal proceedings associated with communications to customers or remuneration of loan originators

1 The entity shall disclose the total amount of monetary losses it incurred during the reporting period as a result of legal proceedings associated with communications to customers or remuneration of loan originators.

2 The legal proceedings shall include any adjudicative proceeding in which the entity was involved, whether before a court, a regulator, an arbitrator, or otherwise.

3 The losses shall include all monetary liabilities to the opposing party or to others (whether as the result of settlement or verdict after trial or otherwise), including fines and other monetary liabilities incurred during the reporting period as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (e.g., governmental, business, or individual).

4 The scope of monetary losses shall exclude legal and other fees and expenses incurred by the entity in its defense.

5 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of relevant industry regulations, such as:

5.1 The Regulation Z (Truth in Lending Act) provisions relating to disclosure communications to customers and remuneration of loan originators, including Subpart D and Subpart E

5.2 The EU Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013

Note to **FN-MF-270a.3**

1 The entity shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, or non-prosecution agreement) and context (e.g., fraud, disclosure to clients, or employee compensation) of all monetary losses as a result of legal proceedings

2 The entity shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

FN-MF-270a.4. Description of remuneration structure of loan originators

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

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

2.1 The entity shall consider remuneration provided directly to the loan originator from a consumer to be within the scope of disclosure.

3 Discussion shall include, but is not limited to:

3.1 The regulatory environment regarding employee remuneration in which entity operates and whether it is required to have certain remuneration policies in place, where the entity shall discuss whether remuneration policies it has are the result of entity requirement or are adopted voluntarily as the industry best practice

3.2 The performance objectives for the institution, business areas, and staff

3.3 The methods for the measurement of performance, including the performance criteria

3.4 The structure of variable remuneration, including where applicable the instruments in which parts of the variable remuneration are awarded

4 Loan originators are defined per the U.S. 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.

4.1 The scope of disclosure includes the entity's employees involved in origination of residential and commercial mortgage and home equity loans.

Discriminatory Lending

Topic Summary

The Mortgage Finance industry aggregates individual data points to determine the terms and conditions of loans including key provisions such as the size of the loan, interest rate, up-front points, or other fees. However, the complex process may result in intentional or unintentional discriminatory lending practices by the mortgage originator. Discriminatory lending presents significant risks in the form of fines or settlements for violations of regulations such as the U.S. Equal Credit Opportunity Act (ECOA) or the U.S. Fair Housing Act (FHA), reputational risk, and negative financial performance due to loan mispricing. Disclosing processes in place to ensure non-discriminatory lending, disclosing the amount of mortgage lending broken down by minority status along with relevant financial characteristics, and disclosing the amount of monetary losses as a result of legal proceedings associated with violations of applicable laws and regulations will help investors to assess company performance. Mortgage finance companies can reduce the risk of intentional or unintentional discriminatory lending through the implementation of strong processes, internal controls, and monitoring the loan portfolio, among other techniques. Proactive companies that develop strong techniques for preventing discrimination can effectively mitigate the risks associated with discriminatory lending.

Accounting Metrics

FN-MF-270b.1. (1) Number, (2) value, and (3) weighted average Loan-to-Value (LTV) ratio of mortgages issued to (a) minority and (b) all other borrowers, by FICO scores above and below 660

1 The entity shall disclose the (1) number, (2) value, and (3) weighted average Loan-to-Value (LTV) ratio of mortgage loans held in the entity's portfolio that are issued to (a) minority and (b) all other borrowers, each broken down by FICO score range: (i) below, or equal to, 660 and (ii) above 660.

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

1.2 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 ethnic groups, the entity shall follow the categorization process used in the FFIEC's Guide to Home Mortgage Disclosure Act (HMDA) Reporting.

1.3 LTV shall be consistent with the FDIC definition found in Part 365 "REAL ESTATE LENDING STANDARDS" of Rules and Regulations and is calculated as a "percentage that is derived at the time of loan origination by dividing an extension of credit by the total value of the property(ies) securing or being improved by the extension of credit plus the amount of any readily marketable collateral and other acceptable collateral that secures the extension of credit. The total amount of all senior liens on or interests in such property(ies) should be included in determining the LTV ratio. When mortgage insurance or collateral is used in the calculation of

the loan-to-value ratio, and such credit enhancement is later released or replaced, the loan-to-value ratio should be recalculated."

1.4 The entity shall calculate the weighted average LTV by weighting each LTV by the respective loan amount, and then dividing the sum of the weighted LTVs by the total loan amount.

2 Race and ethnicity categories shall be based upon the FFIEC's Guide to HMDA Reporting but classification shall be done by self-identification (e.g., during the application process).

2.1 Race categories include: American Indian or Alaska Native, Asian, Black or African American, Native Hawaiian or Other Pacific Islander, and White.

2.2 Ethnicity categories include: "Hispanic or Latino" and "Not Hispanic or Latino."

3 The scope of disclosure includes first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the entity held in its portfolio as the end of the reporting period, including those originated and purchased by the entity.

4 The scope of disclosure includes mortgages issued in the U.S.

5 The entity may summarize the disclosure in the following table:

	MINORITY BORROWERS		ALL OTHER BORROWERS	
	FICO ≤ 660	FICO > 660	FICO ≤ 660	FICO > 660
Number				
Value				
Weighted Average LTV				

FN-MF-270b.2. Total amount of monetary losses as a result of legal proceedings associated with discriminatory mortgage lending

1 The entity shall disclose the total amount of monetary losses it incurred during the reporting period as a result of legal proceedings associated with actual or alleged discriminatory mortgage lending.

2 The legal proceedings shall include any adjudicative proceeding in which the entity was involved, whether before a court, a regulator, an arbitrator, or otherwise.

3 The losses shall include all monetary liabilities to the opposing party or to others (whether as the result of settlement or verdict after trial or otherwise), including fines and other monetary liabilities incurred during the reporting period

as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (e.g., governmental, business, or individual).

4 The scope of monetary losses shall exclude legal and other fees and expenses incurred by the entity in its defense.

5 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of non-discriminatory lending provisions of the U.S. Equal Credit Opportunity Act (ECOA), the U.S. Fair Housing Act (FHA), and non-U.S. equivalents.

Note to **FN-MF-270b.2**

1 The entity shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, or non-prosecution agreement) and context (e.g., fraud, disclosure to clients, or employee compensation) of all monetary losses as a result of legal proceedings.

2 The entity shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

FN-MF-270b.3. Description of policies and procedures for ensuring nondiscriminatory mortgage origination

1 The entity shall describe relevant policies and procedures that ensure non-discriminatory mortgage origination resulting in comparable terms and conditions of loans, including the size of the mortgage, interest rates, discount points, or fees.

1.1 Discriminatory mortgage origination is defined according to the U.S. Equal Credit Opportunity Act (ECOA) which makes it unlawful to discriminate (1) on the basis of race, color, religion, national origin, sex, marital status, or age; (2) because all or part of the applicant's income derives from any public assistance program; or (3) because the applicant has in good faith exercised any right under the U.S. Consumer Credit Protection Act (CCPA).

1.2 The scope of discussion includes, but is not limited to, how the entity ensures compliance with the ECOA, the Fair Housing Act (FHA), or non-U.S. equivalents.

1.3 Discount points are defined as fees paid directly to the lender at closing in exchange for a reduced interest rate.

2 Relevant policies and procedures include, but are not limited to:

2.1 Internal Controls, such as ensuring adequate training of originators, processors, underwriters, and collection personnel, adequate documentation and recordkeeping

2.2 Monitoring of Loan Portfolio on Race, Gender, Ethnicity, and other factors

2.3 Disclosures to Borrowers

Environmental Risk to Mortgaged Properties

Topic Summary

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

FN-MF-450a.1. (1) Number and (2) value of mortgage loans in 100-year flood zones

1 The entity shall disclose the (1) number and (2) value of mortgage loans in the entity's portfolio underwritten on properties that are located in 100-year flood zones.

1.1 100-year flood zones are defined as land areas subject to a one-percent or greater chance of flooding in any given year. Such areas may also be referred to as being subject to the one-percent annual chance flood, the one-percent annual exceedance probability flood, or the 100-year flood.

1.1.1 Examples of 100-year flood zones may include, but are not limited to, coastal flood plains, flood plains along major rivers, and areas subject to flooding from ponding in low-lying areas.

1.2 For mortgage loans on properties located in the U.S., 100-year flood zones shall include those land areas designated by the U.S. Federal Emergency Management Agency (FEMA) as special flood hazard areas (SFHA).

1.2.1 SFHAs are defined as land area in the flood plain subject to a one-percent or greater chance of flooding in any given year. The area may be designated in the applicable flood insurance rate map, as per the U.S. National Flood Insurance Program, as 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. This definition is derived from U.S. 44 CFR 59.1.

1.2.2 The entity may disclose its risk perception and potential impacts resulting from reclassification of FEMA SFHAs, including the risk of expansion of such areas into real estate property covered by mortgages owned by the entity.

1.3 For mortgage loans on properties located in Canada, the entity may refer to Canada's Provincial/Territorial Flood Damage Reduction Programs.

1.4 For mortgage loans on properties located in the EU, the entity may refer to the EU's Flood Directive.

2 The scope of disclosure shall include all of the entity's mortgage loans underwritten on properties that are located in 100-year flood zones, regardless of the country of their location.

2.1 The scope of mortgage loans shall include those first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the entity holds as loan assets.

2.2 The scope of mortgage loans shall exclude mortgages held for sale, mortgage-backed securities, and mortgages serviced by the entity.

FN-MF-450a.2. (1) Total expected loss and (2) Loss Given Default (LGD) attributable to mortgage loan default and delinquency due to weather-related natural catastrophes, by geographic region

1 The entity shall disclose the (1) total expected loss and (2) Loss Given Default (LGD), as a percentage, attributable to mortgage loan default and delinquency due to weather-related natural catastrophes.

1.1 Expected loss is defined and calculated as the sum of the values of all the possible losses for the entity's mortgage loans, each multiplied by the probability of that loss occurring.

1.2 LGD is defined as the share of an asset lost in the situation of default.

1.3 Weather-related natural catastrophes include:

1.3.1 Meteorological events (e.g., hurricanes and storms)

1.3.2 Hydrological events (floods)

1.3.3 Climatological events (e.g., heat waves, cold waves, droughts, and wildfires)

1.4 Weather-related natural catastrophes exclude geophysical events (e.g., earthquakes and volcanic eruptions)

2 The entity shall break down its disclosure by geographic region.

2.1 Applicable regions are determined by the entity, and may include: Gulf Coast, California, Northeast, Mountain, Midwest.

FN-MF-450a.3. Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting

1 The entity shall describe how it has incorporated climate change and other environmental risks into its mortgage origination and underwriting processes.

1.1 The mortgage origination process is defined broadly as all the steps in a mortgage transaction between a lender and a borrower, including, but not limited to, application, processing, and underwriting.

1.2 The scope of climate change and other environmental risks includes, but is not limited to:

1.2.1 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).

1.2.2 The occurrence of geophysical events (e.g., earthquakes and volcanic eruptions).

2 The entity shall disclose how and if these risks affect its origination models and decisions.

2.1 The scope of disclosure includes, but is not limited to:

2.1.1 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).

2.1.2 How natural disaster risks affect credit risk analysis, including if the entity assumes that increases in natural disaster frequency and severity will increase the likelihood of default due to properties being un-insured or under-insured.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD
1045 Sansome Street, Suite 450
San Francisco, CA 94111
415.830.9220
info@sasb.org