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Fitch Ratings Assigns ESG Relevance Scores for USPF Housing Credits.

Fitch Ratings-New York-13 January 2021: Fitch Ratings has assigned Environmental, Social and Governance Relevance Scores (ESG.RS) to its U.S. Public Finance housing credits. ESG.RS are observations of the extent to which Environmental, Social and Governance (ESG) risks affect credit profiles. They relate to individual rating decisions and may change when ratings are reviewed.

The scores articulate the relevance and materiality of an E, S or G factor along with positive or negative impact indicators. Currently, 42% of housing credits have a positive ESG impact indicator related to affordable housing loan programs.

Except for matters that address loan programs and Military Housing Projects (MHPs), the highest level of ESG credit relevance, if present, is generally a score of '3' indicating ESG issues are credit neutral or have only a minimal credit impact on the entity. This is either due to their nature or the way in which they are being managed. Elevated scores of '4' and '5' reflect increased relevance, with a score of '5' indicating a single identified issue that is highly relevant to the rating: a key rating driver.

For elevated scores assigned to loan programs, an ESG.RS of '4'[+] reflects the positive exposure of social impacts on the rating. Specifically, the score reflects customer welfare as it relates to fair messaging and privacy & data security given the focus on fair housing practices by state housing finance agencies (HFAs). Fair housing practices include compliance risks involving fair lending practices, mis-selling, repossession/foreclosure and consumer data protection. Since strong fair housing practices and customer protection contribute to reduced expected losses, this has a positive impact on the rating and is relevant in conjunction with other factors.

In certain cases, an elevated ESG.RS of '4'[+] was assigned to reflect the social impact of human rights, community relations, access & affordability for programs with the majority of assets secured by Government Sponsored Entity (GSE) guarantees. The GSE guarantees address access and affordability while driving strong performance. This has a positive impact on the credit and is relevant to the rating in conjunction with other factors. Social impacts are the only occurrences of elevated scores for loan programs.

MHPs with elevated scores of '4' or '5' incorporate exposure to all three ESG impacts. Elevated scores for environmental risks were driven by waste & hazardous materials management along with ecological impacts. Assignment of an ESG.RS of '5' was based on the project's level of risk exposure to these issues, which were considered key rating drivers.

Exposure to social impacts for MHPs that resulted in an ESG.RS of '4' incorporated customer welfare in the context of fair messaging, privacy & data security. The analysis of social impact for loan programs centers on fair housing practices, whereas for MHPs it addresses quality and safety of products and services, along with data security.

Governance risk for MHPs that resulted in an ESG.RS of '4' incorporated management strategy for moisture remediation issues and oversight challenges related to controlling project expenses. This has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

While it is uncommon for an ESG factor to be a main driver of credit risk or a rating action, ESG issues can often weigh on rating decisions for MHPs. We will continue to assess these factors as part of the overall credit analysis when we consider them to have an impact on the rating within the rating horizon.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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