File Name: Enterprise Housing Goals Advance Notice of Proposed Rulemaking - 3-25-2021

Padma Raman: Good afternoon everyone. Thank you for joining FHFA's Listening Session on our Advanced Notice of Proposed Rulemaking on the Enterprise Housing Goals. My name is Padma Raman. And I'll be introducing today's discussion with, which has, which features several great speakers.

The first thing I would like to do is to thank you for participating in this session. We know that your feedback, attention and time are very valuable. And we appreciate the effort our presenters have made, and the investment in time that you, as listeners, have also committed.

This is a long session, but there is a lot of valuable insight and information to be shared today. Thank you so much and we really look forward to your insightful comment. We do want to make sure that everyone knows that this session is being recorded. So I'll just pause for a second. And now it's my pleasure to introduce FHFA's Director Dr. Mark Calabria.

Mark Calabria: Thank you Padma, and thank you to everybody for participating today in today's listening session. I really feel that today's session reflects a further reflection of our dedication to openness and transparency. Today really is our opportunity to hear from you. We are committed to hearing from as many perspectives as possible on these important issues dealing with the support for sustainable affordable housing.

Today's feedback will help us at FHFA ensure that Fannie Mae and Freddie Mac fulfill their mission and responsibilities. The Safety and Soundness Act directs FHFA to establish annual goals for low income mortgage purchases by the enterprises. The Act determines the types of mortgages FHFA sets goals for, as well as qualification and evaluation criteria.

The Houses Economic Recovery Act also placed upon FHFA an obligation to determine which loans should not be included in the goals, if such loans are "unacceptable, or contrary to good lending standards inconsistent with safety and soundness, are unauthorized for purchase".

I will note that this determination by FHFA is mandated by statute and not one that we can simply delegate to other agencies. We usually set the goals for three years at a time based on projections. Once COVID introduced significant uncertainty in 2020, we decided to extend the existing set of goals for one year. We were certainly well aware and do express appreciation for those comments that were made last year to increase the goals for this year and do appreciate the uncertainty that we are operating under.

This past year has provided us additional data, I believe we've reached more clarity in terms of the mortgage and housing market than we were last year, and this experience will inform this year's plan for rulemaking.

We also depend upon input from people with on the ground information and practical experience. Therefore, we've decided to ask for key questions on our Advanced Notice of Proposed Rulemaking for the upcoming housing goals. I want to emphasize that asking a question only means that we want to learn more about an issue, not that there's been any decision made ahead of time.

For instance, we first asked, are there loans that should be excluded from consideration consistent with the requirements of the Housing Economic Recovery Act?

Second, we wanted to learn about gentrification and the risk of displacement from the low income areas home purchase subgoal.

Third, we asked at the same sub goal should be updated and considered the new opportunity zones program.

And fourth, we asked how the housing goals have helped expand low income homeownership.

We also asked for comments on any other issues you think should be addressed in the rulemaking that we will propose for the goals in 2022 and beyond. We are already reviewing the submitted comments closely. I think you, all of those who have submitted comments, we look forward to integrating the feedback we receive today.

But our exchange for information should not be limited to formal listening sessions and regulatory notices. I encourage each of you to continue giving us candid feedback and ongoing conversations. Thank you again for sharing your expertise with us today. Back to you, Padma.

Padma Raman: Thank you, Director Calabria. We're inviting you to meet with us today in order to obtain your input on the Enterprise Housing Goals. As you know, in December 2020, FHFA issued an Advanced Notice of Proposed Rulemaking, or ANPR, on the enterprise housing goals. The purpose of this meeting is to give you an opportunity to respond specifically to the questions in the ANPR about the enterprise housing goals. Or to elaborate on the public comment letters you submitted to the ANPR. Or even to provide input on the comment letters submitted by others.

We request that speakers do -- we request speakers to respect these guidelines and this forum. FHFA will be in a listening mode here and we welcome your input. As mentioned, we are recording the session and FHFA is preparing a transcript of this meeting, including your names and organizations represented ,as applicable. We will file the transcript along with any documents and materials you have given us, and post these materials on our website.

FHFA will not discuss the status, timing or outcome of future rulemaking. If FHFA should decide to engage in a rulemaking on the matters discussed at this meeting, please be aware that this meeting does not substitute for your formal submission -- for your formally submitting a public comment letter to FHFA on the rulemaking. You would need to submit the comment letter in accordance with the submission instructions in the rulemaking document. We will include your comment letter in the public rulemaking comments document.

Further, anything said in this meeting should not be construed as binding on or a final decision by the FHFA Director or FHFA staff. Any questions we may have are focused on understanding your views and do not indicate a position of the FHFA staffer or the agency.

Any gestures such as head nodding or shaking, facial expressions or verbal expressions such as yes or okay made by FHFA staff, should not be construed as agreement or disagreement with points you have represented. And are simply indications that we have heard your points.

With that, I'm going to pass it over to my colleague Jeanie Lemons to discuss the logistics of the session.

Jeanie Lemons: Thank you Padma. So as part of the zoom process, those that have speaking roles will have the ability to mute and unmute themselves. When it's your time to speak, please unmute yourself, and when you're not speaking your microphone on mute to reduce the background noise.

Each speaker will have 10 minutes to present. And I will inform you when you have one minute left of your allotted time. Please forgive the interruption in advance, but we want to make sure we stay on schedule and hear from everyone.

The way I will proceed is by queuing up the first person and I will give the next person a heads up that they will follow right after. My apologies in advance if I mispronounce anyone's name, I will do my best to get it right.

So with that, let's get started. I will turn it over to Edward Golding, and after Ed's presentation, we will hear from Willie Fleming. So Ed, please unmute and begin.

Edward Golding: Thank you very much. And in particular I would like to thank Director Calabria and staff of the FHFA for inviting me to speak. I'm Ed Golding, and I'm Executive Director of the College Center for Finance and Policy at MIT's Sloan School of Management. Of course, my comments are my own and do not represent the views of MIT Sloan, or the College Center.

The ANPR basically asks how to improve the housing goals, and whether to better target these goals. And let me begin with five general observations about housing goals based on my many years in housing finance.

First, the GSEs do best to providing liquidity and scale. They create the currency and the payment system for the mortgage market. And then in these functions they have been wildly successful, yet they aren't designed for one off product or for retail outreach.

Second, the vast majority of the mortgages that qualify for the goals would had been originated and sold to the GSEs irrespective of those goals. The goals have only a relatively small effect on the margin. We're probably talking about less than 100,000, perhaps even less than 10,000 loans, out of the more than a million loans that qualified for the goal in 2019.

Third, affordable loans are not excessively risky loans. My favorite table from Freddie Mac's AR is Exhibit I, that shows that without controlling for any risk factors, low mod loans only defaulted at a rate about 20% higher than non-low mod loans for 2006 and 2007 originations at the height of the bubble. Of course, in good times, the multiples are much higher, but even three times zero is still a very small number.

Fourth, there's no indication that the housing goals have created a lower priced affordable mortgage. An applicant whose mortgage hits three of the goals does not get a lower mortgage rate. What we have seen, however, are financial firms that have figured out how to increase their profits in this space, with perhaps the most notorious a 2003 transaction with Washington Mutual. But even today, many a trader brings home a big bonus thanks to speck trading of MBS comprised of affordable loans.

And lastly, the GSEs are special purpose corporations shielded from competitive forces by their charters that give them significant privileges. The housing goals are the embodiment of how Congress views that these benefits and privileges should be distributed to the market.

So what do I take from these observations on how to improve the goals? Overall, the housing goals should encourage the GSEs to build a liquid scalable market for affordable lending, that results in lower mortgage rates for these loans. Both at origination, and I want to emphasize this, and in the outstanding stock of mortgages. Focus more on the cost before affordable lending and on the liquidity in the market. Lower the cost and make those loans widely available. This shifts out the supply curve and necessarily results in an increase in volume. And it plays to what the GSEs are designed to do to, build a liquid scalable market.

With the goals as they are constructed today, you don't really know whether you've expanded affordable lending, as you do not observe what volume would have been in the absence of the goal. The research into this question is mixed at best and not very convincing either case. We just don't know and probably can't know.

Further complicating the issue is that the goals require FHFA to forecast the market, which is an impossible task. Better to focus on the readily observable price side and set up goals that leverage this information.

Specifically, these are ideas to consider and need to be more, you know, researched and scoped out. But here are some areas where we could use the goals better than we have in the past.

For example, per, you know, no credit for any mortgage that contains an LLPA would be one way of using the price side of the information to decide where to target counting the goals.

Similarly, you could tie credit to the all in mortgage rate including mortgage insurance premiums. There are various ways to do this, but bottom line goal qualified mortgages should have a lower mortgage rate than non-qualifying mortgages.

And third, explore tying credit levels to whether the mortgage is eligible for pooling into lower yielding ESG securities, something that Ginnie Mae seems to be preparing to experiment with, given their recent decisions around disclosures.

Fourth, increase the low income refi goal to equate the refi rate or the prepayment rate on the outstanding stock of mortgages for low income borrowers with that of non-low income borrowers. For example, high income mortgages held by the GSEs refi at a rate of 35% in 2021, the refi goals should be 35% of the outstanding low income mortgages. This would encourage expanded refi -- streamlined refi programs.

My paper on the unequal cost of Black homeownership with the Aronowitz and Choi, show that about a third of the higher costs facing Black homeowners is attributable to impediments in refinancing. Why should a non-cash out refi need to be re-underwritten?

I will also note that there are no LLPAs for loans that are likely to quickly refi. For example, low LTD high credit score loans. We have chosen to risk based price credit but not prepayment risk. And the GSEs should own this problem. And the refinancing housing goal can be used to focus their attention on this issue.

And by tying the low income goal to the level of activity in the non-low income market, there's no need to forecast value. Just compare at the level of activities ex-post.

Now these are just some of the ideas, but they leverage what the GSEs do well, build liquid scalable markets and moves FHFA away from trying to forecast markets and then set constraints under their forecasts.

Now, in my last minute, let me address two concerns that I know I will hear from my risk management friends, about trying to expand credit through housing goals. First is the general concern that these loans are too risky. That's just nonsense.

As research by the Urban Institute shows, the credit box is extremely tight by historical standards. And as I pointed out before, the extra risk on goal loans in bad times is quite modest. But more importantly these are very insurable risks that can be quantified, monitored and mitigated.

And this leads to the next criticism that I'm sure I will hear, that the capital needed for these mortgages are so high that pricing will force these into the FHFA program. But there's nothing in the GFE charter, or the history up to 2008 that suggests Congress ever intended GSEs to risk base price every loan.

Quite to the contrary, the charter says that the return on these loans may be lower, and the GSEs did not risk base price for most of their history. Their charter shielded them from the competition that often drives companies to risk based price. So housing goals that promote the expansion of credit through a liquid scalable market, the lowest mortgage rates and goal qualified mortgages is both achievable and good policy.

Lastly, I would be remiss not to mention that in conservatorship, many of these goals could be easily accomplished through direct action and would not need revisions of the housing goals. But in planning for the future, the goals can help build a better, more equitable housing finance system as Congress intended when setting up these goals. I want to thank you very much for giving me the time and for listening.

Jeanie Lemons: Thank you so much. And so we will now hear from Willie Fleming and after that, we'll hear from Grant Beck.

Willie Fleming: Hello, can you hear me?

Jeanie Lemons: Yes, we can hear you.

Willie Fleming: Okay. My name is Willie J.R. Fleming. I'm the Executive Director of the Chicago Anti Eviction Campaign. We are also community buyers with the NSI Program and the Community First Program. Today I was just going to talk about the low income areas home purchase goals that we came across as well as the renters.

We believe that this is an opportunity for the enterprise partners, FHFA to utilize using the NSI, a Community First Program, to increase donation in this county's inventory to help community borrowers who can provide more low income housing ownership opportunities.

The recent jumps in our housing market in the City of Chicago, have recently showed the need for more discounted and donated properties, right. Given the pandemic that we have faced, an African American community pre-COVID-19 in accessing loans, mortgages or anything that would help us regain the wealth that we lost during the foreclosure crisis of '07, '08, '09, however you want to frame it.

Over the last six, seven years, we will see that the FHFA have been workable and listening to a lot of the community buyers, community advocates and policymakers. We feel that there is no greater time than now for FHFA to do the same. Outside of the home ownership market there is a crisis, if you want to call it an eviction crisis or a housing crisis, we deem it to be a human rights crisis in a rental market soon to hit.

Post-pandemic we expect four time grader evictions numbers than we saw 10 years ago. Given these that -- given this data and these facts, we are suggesting that the FHFA and its partners find a way to expand programs and products that could assist nonprofit organizations, community development corporations, community land banks, as well as municipal land banks in acquiring these properties through a discounted or a donated program that expand beyond the Community First, the NSI, the NSP, the Home Path and the Home Step Goals and Programs.

Increasing discounts and donation would allow for community organizations to provide additional discounts to renters and homeowners, whatever program they're running, be it for homeownership or affordable renters.

If Fannie Mae, Freddie Mac and FHFA do not provide additional discount and donations, it will soon find that a lot of its community buyers and partners are not able to, one, participate in purchasing properties through these programs, but, two, in providing future opportunities to low income homeowners, low income and working class renters.

The expiration of the Eviction Moratorium will produce data that we reflect how many low income families who was previously in a home will be losing their home. It will produce data about how many community organizations, community development corporations or nonprofit partners who participated in these programs dropping out, the data will only be detrimental.

And we know that when we have an eviction crisis or a foreclosure crisis in the African American community, blight follows behind. Behind blight comes violence. Behind the violence comes displacement.

So we are suggesting, again that FHFA utilize this opportunity and time before the expiration of the moratorium to find ways of working with community partners, working with community advocates, working with the NCST, working with Fannie and Freddie, to find products and programs that would assist us and assist in the upcoming crisis.

In order for housing providers to assist with better opportunities for low income folks. we need better opportunities. We need better products. We need better programs.

So again, in closing, all I will say is that we recommended these steps that they create better pricing and loan products, not just for its community partners, we ask that they find a product that would assist community land trusts, who are dealing with low income homeownership models, as well as low income and affordable housing rental models. Thank you. And I appreciate this opportunity to provide some input.

Jeanie Lemons: Thank you. So we will now hear from Grant Beck and after that we will hear from Garth Rieman.

Grant Beck: Well, thank you and good afternoon, and thank you to FHFA for the opportunity to provide comment on the agency's Advanced Notice of Proposed Rulemaking on the enterprises' Housing Goals. We also thank the enterprises for their ongoing work to support the housing needs of all Americans under duty to serve.

My name is Greg Beck, and I'm the Vice President of strategic partnerships for Next Step Network. Next Step Network is a national nonprofit housing intermediary that works to promote expanded use of factory built housing as a viable solution to address housing affordability.

Our organization works with partners across the country to provide a pathway to sustainable homeownership for low and moderate income families through housing counseling services, financial and homebuyer education, and leveraging New Energy Star manufactured homes.

America's promise of opportunity is built on the foundation of homeownership. For generations, the blueprint of wealth creation and equity building in this country have been predicated on the financial gains afforded by owning a home. Yet millions of households, particularly those individuals living in lower income communities of color, on tribal lands, and in immigrant communities, have been barred from this quintessentially American path to prosperity by a lack of affordable housing choice.

As a part of duty to serve, Next Step and our partners have had the opportunity to work with both enterprises in furtherance of their housing goals to address this lack of affordable housing supply using HUD code manufactured homes. While recognizing that much work remains to be done in this space, we do see evidence of positive impact on low income homeownership opportunities as a result of the enterprises' housing goals.

In San Bernardino, California, Next Step's nonprofit developer partner, Neighborhood Partnership Housing Services, in leading an infill housing development project within city limits using HUD code manufactured homes. Homes are being placed on formerly vacant lots owned by the City of San Bernardino and match the historical aesthetics of the existing neighborhoods. NPHS is also a social enterprise model leveraging an in house realtor and social and visual media marketing tools like Zillow to market the tools in a manner more akin to site built homes.

The neighborhoods where NPHS is placing these homes are primarily communities comprised of low to moderate income, Black and Latino households. NPHS is also an active homeownership center and is providing homebuyer education and counseling services to those individuals and families who need support in their homeownership journey.

We are now in the second phase of this project, which will bring four new housing units to communities in San Bernardino. In 2019, Next Step and NPHS successfully partnered to build in place three homes within San Bernardino City Limits, all of which are now successfully owner occupied.

These homes meet the qualifications for Freddie Mac's choice on mortgage products and costs the developer 25% less to complete than comparable sites built homes. The second phase of this development is also the leveraging federal home dollars for the U.S. Department of Housing and Urban Development, demonstrating the impact of public private partnerships in generating more affordable housing choice.

In Phoenix, Arizona, Next Step’s nonprofit developer partner, Trellis, is leading the effort to develop a new 38 unit mixed income subdivision within city limits using HUD code manufactured homes. The Arizona Department of Housing is providing development subsidy to the project, with the hopes of serving homebuyers earning between 60% to 80% AMI.

Trellis is also an active homeownership center and will provide homebuyer education and counseling to those individuals who need support in their homeownership journey. The homes, constructed by Clayton Homes will be Energy Star qualified and eligible for financing under Fannie Mae's MH Advantage program.

While we celebrate these successes, we do recognize the daunting challenge ahead. In the U.S. we have a supply gap of more than seven million affordable homes. Additionally, 37 million millennial households are mortgage ready, but cannot find a home due to limited supply at their price point.

Our organization and partners remain firmly rooted in the belief that manufactured housing can be a primary solution to address both the supply and affordability gap. Continued and expanded participation by both enterprises and manufactured housing space can help bring scalable solutions to better address the housing needs for all Americans.

As always, we conduct our work with the homeownership success of our buyers top of mind. One area where the enterprises can help make gains in the space is by investing in expanded access to housing counseling services and homebuyer education. Prospective homebuyers who receive education and counseling services are empowered to make the best finance and purchase decisions for themselves and their families, creating a path to wealth creation through homeownership.

The enterprises should also explore the impact of down payment assistance in meeting the housing goals. A down payment remains the primary obstacle for 77% of first time homebuyers. Our partners at down payment resource report that only 26% of down payment assistance programs in their database allow for manufactured housing.

Additionally, we believe that both GSEs must significantly increased their target loan void in order to affect both the shift toward home purchases titled as mortgages as opposed to higher cost home only loans, and increase awareness of their manufactured home loan products to lower income communities of color, on tribal lands, and immigrant communities.

Next Step urges the enterprises to be aggressive in their housing goals as they relate to manufactured housing, and looks forward to the opportunity to continue our partnership, fostering housing and community development efforts across the country. By building and supporting coalitions of housing and community based organizations, the enterprises can ensure that prospective manufactured home buyers have access to the tools and wraparound services that they need to achieve homeownership success. Thank you again for this opportunity and to both FHFA and the enterprises and for their continued work in this space.

Jeanie Lemons: Great, thank you, Grant. We will now hear from Garth Reiman and after that we will hear from Mark Weiss.

Garth Reiman: Thank you very much. Thank you for this opportunity to present the National Council of State Housing Agencies' response to the FHFA's Advanced Notice of Proposed Rulemaking on the enterprises'

Affordable Housing Goals. It's a privilege and an honor to talk to you today.

Our comments are focused on the questions about providing credit to affordable housing lending in opportunity zones, and the value of the affordable housing goals in incentivizing the enterprises to expand their affordable housing activities.

Generally, we urge FHFA to establish robust goals that push the enterprises' to do as much responsible affordable lending as possible, and to better serve underserved markets.

We also recommend FHFA specifically and explicitly encourage the enterprises to increase lending to people and communities of color and remove or reduce the impediments to increased enterprise support for HFA affordable housing lending.

NCSHA supports providing additional goals credit to the enterprises for purchasing or credit enhancing single family and multifamily loans for homes in opportunity zones. Opportunity zones were created to encourage investment in designated high poverty neighborhoods.

Some observers are questioning whether much affordable housing activity is occurring, or is likely to occur in opportunity zones. Enterprise activity could facilitate increased affordable housing investment in these areas and help realize the goals of adding jobs, providing more affordable housing and improving living conditions in those areas. And providing goals credit for such activity would probably help stimulate more of it.

The ANPR asks if the goals expand low income homeownership? We think they do. We believe the housing goals have provided a strong incentive to the enterprises to expand their low income homeownership and rental lending and to create stronger partnerships with HFSs and other lenders involved in affordable housing.

However, changes made to the enterprises HFA specific products have limited their usefulness and reduced their volume. One of the main changes limited the enterprises support for HFA single family loans for homebuyers above 80% of area median income. Only about 31% of HFA program loans in 2019 utilized either Fannie Mae or Freddie Mac financing, significantly less than in the previous years.

Whether state HFA and other loans might have been purchased by an enterprise in the absence of their affordable housing goals is not as relevant as whether the goals provide a strong incentive to increase such lending, which we believe they do. The enterprises' role in improving liquidity, pricing and access all suggest strong housing goals are meaningful and important for the enterprises' specific performance and also for leading the market in general.

While Fannie Mae and Freddie Mac met their affordable housing goals in 2019, we believe they can do even more and the goals should push them to do more. FHFA should consider revising the enterprises' housing goals to encourage them to help address the large and conspicuous gaps in homeownership rates between Whites and people of color.

Persons of color have faced and continue to face significant obstacles in their efforts to become homeowners and keep their homes. Many of them have lost out on the wealth building opportunities of homeownership over time and have lost significant ground since the Great Recession. It is fitting that the enterprises' play a stronger role in meeting the affordable housing needs of people of color.

One of the tools that help people of color overcome the obstacles in their path to homeownership is down payment assistance. HFSs are helping in this area and could do more with greater enterprise support.

In 2019, over 80% of state HFA borrowers received down payment assistance, an increase of almost 4% over 2018, illustrating the growing importance of state HFA down payment assistance programs in meeting the needs of low wealth homebuyers in their states, and the significant need among those homebuyers in receiving down payment assistance to afford homeownership.

We also urge FHFA, as part of its review of ways to expand homeownership through its housing goals, regulations, and otherwise, to consider what it itself can do to increase affordable housing lending by Fannie Mae and Freddie Mac.

One example that comes to mind is working with the U.S. Treasury Department to reconsider the caps placed recently on enterprise purchases of loans with high loan to value ratios, and either a high debt to income ratio or low credit score.

As down payment assistance usually increases the combined loan duration -- loan to value ratio of mortgage loans to lower income and low wealth homebuyers beyond 90%, this provision acts as cross purposes with each enterprises' housing goals.

Furthermore, many loans with combined loan to value ratios greater than 90% are safe and sound as HFAs have shown and in fact as analysis of Fannie Mae affordable housing lending has shown.

We also suggest you reconsider making a homebuyer's debt to income ratio, a criterion for limiting enterprise lending. Research shows debt to income is not a reliable measure of ability to pay. While it's not clear that these limits in the PSPAs are actually cutting into enterprise activity, it certainly seems possible that they could in the future, and could therefore impair the goal of increasing affordable housing lending by the enterprises.

Thank you for listening to my remarks. Please let us know if we can provide any additional details on any of our recommendations. This concludes my remarks. Thank you very much.

Jeanie Lemons: Thank you Garth. We will now hear from Mark Weiss, and after that we will hear from Tony Kovach.

Mark Weiss: Okay, thank you. Is my audio getting through?

Jeanie Lemons: Yes, we can hear you.

Mark Weiss: Okay, thank you. Appreciate it. And would like to thank Director Calabria. My name is Mark Weiss, and I'm President and CEO of the Manufactured Housing Association for Regulatory Reform. MHARR represents independent producers of manufactured housing regulated by the U.S. Department of Housing and Urban Development.

MHARR's member companies are located in and produce homes that are sold in all regions of the United States. Manufactured homes are specifically recognized and protected under federal law as a leading source of nonsubsidized inherently affordable home ownership. And are regulated under a system that's expressly designed to maintain their affordability in a manner that's also consistent with both quality and consumer safety.

Because manufactured homes are federally regulated under a system designed to maintain their affordability, the average structural price of a manufactured home 2019 was at $81,900, while the average structural price of a site built home the same year was $299,000, plus. Put differently, the structural costs of an average site build home is 265% greater than the cost, structural cost of an average manufactured home.

Because of this price advantage and the crucial role that inherently affordable manufactured housing could and should play in alleviating the nation's affordable housing crisis, Congress specifically included manufactured housing as part of its duty to serve mandate enacted in 2008.

Thirteen years after duty to serve was enacted though, the vast bulk of the mainstream manufactured home consumer lending market represented by personal property or chattel loans remains completely unserved under the duty to serve. Nor is there any pending plan or target for the enterprises to serve the manufactured housing chattel market under DTS through at least the end of 2021.

As a result, more than a decade after the enactment of DTS to increase mainstream manufactured housing consumer loan market support by Fannie Mae and Freddie Mac, nearly 80% of all manufactured home loans represented by chattel obligations have been completely excluded.

Meanwhile, Fannie and Freddie, with the approval of FHFA, have prioritized duty to serve support for a much smaller and much more costly set of boutique manufactured homes titled as real property and denominated as either MH Advantage, Choice Home or Cross Mod homes. These homes that are produced almost entirely by the industry's largest corporate conglomerates are outside of the industry's mainstream and represent only a very small minuscule number of originations.

Consequently, the vast bulk of the manufactured housing consumer lending market continues to be entirely unserved by Fannie Mae and Freddie Mac under the duty to serve. This represents unfortunately a double whammy for manufactured housing and for the lower and moderate income mainstream manufactured housing consumers, because FHFA contemporaneously with its proposal of a DTS implementation plan -- rule, excuse me, in 2010, removed manufactured homes which had previously been part of the enterprise housing goals from that program.

Prior to 2010, as FHFA has acknowledged, the enterprise housing goals regulation defined the term mortgage to include a loan secured by a manufactured home, that's personal property under the law of the state in which the home is located. The exclusion of manufactured home personal property loans from the enterprise housing goals from that point forward, together with their simultaneous exclusion from the duty to serve, up until today, has left mainstream affordable manufactured homes, and mainstream affordable manufactured home consumers, effectively out in the cold with no support whatsoever from the enterprises under either program.

And unfortunately, this represents a broken promise to manufactured housing consumers and, frankly outright defiance of Congress, which made clear its intent to ensure a market significant levels support for affordable mainstream manufactured housing.

As a result of FHFA's exclusion of mainstream manufactured housing personal property loans from both the enterprise housing goals and duty to serve through what amounts to a shell game, the vast bulk of mainstream manufactured housing consumer financing market is not being served by the enterprises under either duty to serve or the enterprise housing goals.

After the 2010 mortgage definition regulatory modification that deleted enterprise housing goals credit for purchases of personal property manufactured housing loans, FHFA stated its willingness to restore such credit "in a future rulemaking". That future rulemaking should, and in fact must be now, now's the time for Fannie and Freddie and FHFA to stop making excuses for failing to implement chattel manufactured home loan support under DTS. And now is also the time for FHFA to finally require market significant enterprise support for those loans under both the duty to serve and the enterprise housing goals.

The facts have shown over the past decade plus that FHFA's linkage between the duty to serve and the enterprise housing goals with respect to manufactured home consumer lending support, unfortunately, has been a failure that has left manufactured homebuyers with virtually no support whatsoever under either DTS or the enterprise housing goals, contrary to the expressed desire of Congress to promote, enhance and advance support for mainstream manufactured housing loans, and mainstream consumers -- manufactured housing consumers.

That failed policy should be ended now. And FHFA should take responsibility ensuring that Congress' objective to ensure strong secondary market support for mainstream manufactured housing consumer loans, is in fact achieved.

Accordingly, FHFA, in our view, should both reincorporate mainstream manufactured home consumer lending support within the enterprise housing goals and simultaneously require markets significant manufactured housing support under the duty to serve as well. Thank you, and appreciate the opportunity to speak today.

Jeanie Lemons: Thank you. So we will now hear from Tony Kovach, and after that we will hear from Agatha So. Tony, are you on the line?

Padma Raman: Tony, you may need to press star six to unmute your line. Jeanie, do you want to go next to Agatha and I will contact Tony offline?

Jeanie Lemons: Sure, Agatha, are you on the line and ready?

Agatha So: Yes, I am.

Jeanie Lemons: Great. Thank you so much.

Agatha So: Good afternoon everyone. Thank you, Jeannie. And thank you to all the FHFA staff. And thank you to Director Calabria for hosting this listening session this afternoon.

My name is Agatha So, and I'm a Senior Policy Analyst with UnidosU.S., formerly National Council of La Raza. UnidosU.S. is the largest Hispanic civil rights and advocacy organization in the nation. As we mentioned in our response to the Advanced Notice of Proposed Rulemaking for Fannie Mae and Freddie Mac's Housing Goals for 2021, we urge FHFA to set and enforce a strong set of goals for the GSEs to ensure that all eligible borrowers ,especially low and moderate income borrowers and borrowers of color, continue to have access to an affordable home loan.

UnidosU.S. works closely with a network of nearly 300 nonprofit affiliated organizations across the nation, among them nearly 50 community based housing counseling agencies. In its 23rd year, our network provides homeownership counseling services to over 40,000 people annually and averages more than 2,000 closings new homeowners a year.

We also manage La Raza Development Fund, a CDFI that provides capital to our affiliates for community facilities, including affordable housing development. In addition, we formed [inaudible 0:44:38], Inc. to repurpose REO properties nationally, which created a foreclosure prevention program that purchases distressed mortgages and has a higher modification rate than that of private purchasers because of comprehensive programming, including housing counseling.

In my remarks, I'll provide a summary of the following: Evidence of that housing goals have had a positive impact on low income homeownership, how the housing goals are important to advancing equity and homeownership for low and moderate income communities and people of color, as well as the ways FHFA and the GSEs should monitor servicing standards in the market and integrated housing counseling to help narrow the racial and ethnic homeownership gap and advance equity in the housing market.

First, Latinos and other borrowers of color remain underserved by the GSEs. In 2018, fewer than 5% of loans that the enterprises backed went to Black borrowers and less than 11% went to Latino borrowers, 77% went to White borrowers.

These disparities have contributed to a gap between Latino and White homeownership rates, which has persisted since the last recession. Contributing to this gap is the growing absence of affordable lending to low and moderate income communities and Latino borrowers limited access to affordable loan products.

In spite of these trends, there's evidence that strong ambitious housing goals have been effective in increasing homeownership for low and moderate income families and has supported increases in the Latino homeownership rate.

For example, the GSEs have increased access and affordability through their home lending programs in the past. Through the community homebuyers program in the '90s, lenders exercised great scrutiny to ensure that borrowers were well prepared for their mortgage obligations through a combination of low down payments and homeownership counseling.

Research shows that between 1997 and 2002 the GSEs affordability goals, expanded mortgage credit to communities of color and low income borrowers by standardizing eligibility criteria and underwriting factors that enabled more households to obtain credit.

During the same period, Hispanic homeownership rates increased from 43% to 48%. The housing goals do not act independently. Our regulatory environment that encourages innovation between public and private partners, and responsible lending, along with the promotion of homeownership, can work together to help boost homeownership for people of color.

Next, recognizing the disparities in our laws and public policies, as well as in public and private institutions, have often denied equal opportunity to individuals and communities. In January, President Biden announced an executive order on advancing racial equity in underserved communities through the federal government.

This included a call to federal agencies to recognize and work to redress inequities in policies and programs that may serve as barriers to equal opportunity. UnidosU.S. urges FHFA and the GSEs to participate in efforts to assess equity within their own respective policies and actions.

Doing so will also help tackle inequity that continues in today's housing finance system, where high quality credit options are available to wealthier borrowers than borrowers of color and communities with no wealth, or little intergenerational wealth in particular, face limited credit options, higher fees and barriers to building precious home equity.

Research shows that Black and Brown, excuse me, Latino and Black borrowers face higher interest rates, are targeted for higher cost credit, denied conventional mortgages at a higher rate, and pay more for their mortgage over a 30 year period, and more so than White borrowers.

In addition, we urge the FHFA and the GSEs to take action to avoid another foreclosure crisis, protect affordable housing supply and promote equity and loss mitigation, and eventually help bolster homeownership through the integration of housing counseling in the mortgage process.

Based on CFPB’s analysis of Black Knight data, there are over 800,000 homeowners who are behind on their mortgages, but have not received forbearance as of February 2021. Census poll survey data shows that homeowners of color are falling behind on their mortgage payments at a much higher rate than White homeowners and homeowners overall.

Based on surveys of our housing counseling network and CFPB’s analysis of Fannie Mae data, borrowers in rural areas and Black and Latino homeowners are more likely to be unfamiliar with forbearance and mortgage relief options. Given that borrowers of color have disproportionately lost unemployment and income due to the pandemic, as long as these homeowners remain disconnected from relief and unaware of their options, the more likely they will be vulnerable to foreclosure and lose their precious home equity.

In addition, we are concerned that market -- the current housing market will be open season for cash for keys, predatory deed in lieu practices where speculation takes affordable single family housing off the market.

We urge FHFA. to monitor mortgage servicing standards. The GSEs must ensure that servicers of GSE backed loans are proactively helping homeowners who are struggling with their payments due to the pandemic, providing notice of any and all mortgage relief and loss mitigation options and reaching out to homeowners who are at risk of default.

HUD housing counseling agencies, UnidosU.S. homeownership included, are prepared to help. As two of the largest investors in the market, GSEs policies and guidance can have a real positive impact to help homeowners stay in their homes, protect home equity and create new homeownership opportunities for eligible borrowers.

Furthermore, we offer two actions that FHFA and the GSEs can take in the short term to integrate housing counseling in the mortgage process. First, FHFA can reinstate the housing counseling data fields and language preference question in the Uniform Residential Loan Application, also known as the URLA, to track and collect housing counseling services, as well as improve equity and mortgage access for limited English proficient borrowers.

Next, the GSEs should support new strategies for fee for service or stronger lender housing counseling partnerships. The structure of Fannie Mae's $500 incentives for use of housing counseling did not achieve the impact desired, in part because the incentive went to the borrowers and few lenders participated in the program.

Instead, the GSEs should dedicate their support and resources to high impact high yield activities where many lenders participate. For example, lenders should direct borrowers that are denied in their home mortgage underwriting systems to housing counseling organizations to become mortgage ready in the future.

Currently, we know lenders and borrowers a list of counseling agencies, but there's no incentive for the borrower to reach out. In one case study a mortgage lender directed 500 denied borrowers directly to a housing counselor. After 12 months of customized targeted housing counseling assistance, more than half, over 250 of those same homebuyers and borrowers -- over half of those borrowers were mortgage ready and bought a home within one year of completing housing counseling.

Finally, the COVID-19 Pandemic continues to reveal deep, long standing inequities in the housing market. FHFA should not only establish ambitious housing goals, but also require the GSEs --

Jeanie Lemons: One minute left.

Agatha So: And publish data that enables them, policymakers and the public to understand how the housing goals impact low income and borrowers from communities of color. As we suggested in our comments, the GSEs should measure and report the total number of borrowers of color served by their low down payment mortgage programs, affordable lending programs in partnership with HFAs and count the number of small dollar mortgages, those less than $150,000, that the GSEs purchase on an annual basis.

These programs provide creditworthy borrowers with access to features that help support low income and people of color to better access mortgages. Research by the Urban Institute and Federal Reserve Bank of Chicago suggests that financing of lower cost properties can facilitate homeownership opportunities for low income and borrowers of color. Thank you so much for your attention this afternoon.

Jeanie Lemons: Thank you so much. Okay, so we are going to try Tony Kovach again, and then after that we will hear from Gerron Levi.

Padma Raman: As a reminder, Tony, please press star six to unmute.

Jeanie Lemons: Still having trouble hearing you. Okay. We will keep trying. But for now let's move on to Gerron Levi. Please begin.

Gerron Levi: Okay, good afternoon. I hope you can hear me. Yes, okay.

Jeanie Lemons: Yes, we can. Yes.

Gerron Levi: Okay. Thank you for convening this listening session about the enterprises' affordable housing goals. I am Gerron Levi, Senior Director of Government Affairs for the National Community Reinvestment Coalition. NCRC has a long history of advocacy around the affordable housing goals, really since their inception in the '90s.

Each time FHFA sets the housing goals for Fannie Mae and Freddie Mac, it represents an opportunity to set goals that will ensure that the enterprises will exert leadership in helping to address some of the most pressing affordable housing challenges across the single family and multifamily markets.

While we have submitted a longer comment that responds to a number of the questions posed by the agency, and restates some of our prior recommendations around the goals, I did want to participate in today's listening session to emphasize also how important the role of FHFA's other policies are and will be in facilitating the enterprises' housing goal performance, and their other affordable housing obligations.

NCRC is supporting important goals for the nation around preserving and expanding access to homeownership, and particularly for borrowers of color and communities of color, as a key piece in the country's effort to close the racial wealth gap. And to achieve an equitable recovery from the COVID-19 Pandemic.

The role of the enterprises is just central to these objectives. Since their adoption, the affordable housing goals have driven significant affordable housing activities and innovations at the enterprises as they seek to respond to gaps in the mortgage market that inhibit access to credit for low and moderate income borrowers in LMI, low and moderate income communities, as well as in communities of color.

The enterprises' low down payment products and other affordable loan product offerings, their stakeholder outreach and their outreach budget and partnerships, market research, investments in grant making have been and continue to be key in their efforts to meet their housing goals.

And the loan targets, the annual loan targets they set recently, for example, there has been important work around identifying 1.7 million mortgage ready Black millennials in 31 cities, just as one example. And developing strategies to address down payment barriers and barriers related to the existing affordable housing stock.

Having said that we have been, you know, disappointed with both FHFA's goal setting, as well as the goal performance during, you know, significant periods of the conservatorship, as well as the loan guarantees benefiting borrowers of color.

We continue to believe, however, that setting robust housing goals for the enterprises can drive significant affordable housing work throughout the mortgage market. FHFA has asked if other support activities undertaken by the enterprises should be considered when FHFA reviews the enterprises' goal performance.

Unlike the duty to serve law, the statute governing the housing goals is clear on how the annual targets are to be set and the factors to be considered including their "ability to lead the industry". And it is key that FHFA remain focused on setting and the enterprises' remain focused on reaching an annual numeric target percentage of their mortgage purchases. And that the target set among other statutory considerations reflect market leadership.

We believe it is the setting of a strong and measurable goal that, you know, that should drive the other activities, you know, product -- around products, around research and around outreach. And setting the housing goals at the average of the agency's market forecasts, in our view, does not reflect leadership.

As important have been the other policies that have been set by FHFA, as conservator. We have expressed continued concern about the impacts of various FHFA conservatorship policies on the ability of the enterprises to respond to the scale of the affordable housing challenges facing the country, as well as their role in expanding access for borrowers of color, and in addressing the racial wealth gap are longer common goals into some of the policies over the years that have affected the ability of the enterprises to carry out their mission and meet their housing goals and other obligations.

For example, while we expressed concerns about the years when the enterprises' lack the capital buffer, we are very concerned about the recent capital rule imposing bank like capital requirements that will increase mortgage costs and reduce the availability of mortgage credit for LMI and minority borrowers.

The recent changes to the FHFA Treasury Preferred Stock Purchase Agreements, capping the enterprises' multifamily business and their ability, their purchases of some single family mortgages based on loan to value, debt to income and credit scores, among other provisions, would also limit the ability of the enterprises' to reach low and moderate income homebuyers and borrowers of color going forward.

Fannie Mae reported in their annual report, their 10-K, that based on FHFA's interpretive guidance, and an initial assessment of their purchase activities, they are not in compliance with the new LTB DTI and credit score restrictions on their single family business. Presumably, and at least according to recent reports, they will have to shrink their business to meet those requirements. We think that's going to have a disproportionate impact on LMI and borrowers of color and the ability to meet the goals.

In fact, Freddie Mac had also reported in their annual report that risk appetite constraints may make it difficult for them to meet their affordable housing goals in the future. We're concerned, very concerned about both of those disclosures.

Given these and other disclosures, we think it is critical that FHFA provide annual and written impact analysis on how the agency's policies and those pursuant to these new PSPA covenants, including those around, you know, capital and liquidity, pricing, product development, acquisition limits, you know, how are these impacting the ability of the enterprises' to meet the mission in their charter, and specifically to meet the affordable housing goals, and goals that reflect the consideration spelled out in the statute.

Whether based on the data the agency's conservatorship policies have struck an appropriate balance between maintaining a sound financial condition and facilitating mortgage market liquidity, leadership and access to underserved markets for borrowers and communities of color, the report should also make public any fair housing or fair lending analysis of its policies that it has completed. So thank you for your consideration of those comments.

Jeanie Lemons: Thank you so much. So with the idea that the third time's the charm, we're going to try one more time to see if we can hear from Tony.

Padma Raman: I don't see Tony online right now. I think he was logging out and logging back in. Can we move on to Lesli?

Jeanie Lemons: Okay. Sure. So, now then we will hear from Lesli Gooch.

Lesli Gooch: Thank you so much to the team at FHFA and everyone joining today's call. I appreciate the opportunity to share MHI's views about potential changes to the regulation, establishing housing goals for the enterprises.

I'm Lesli Gooch, the CEO of the Manufactured Housing Institute. And we are the only national trade association that represents all segments of the factory built housing industry. Our members include homebuilders, suppliers, retail sellers, lenders, installers and community owners and operators, and others who serve the industry. We have 48 affiliated state organizations also as members of MHI.

In 2020, the industry shipped almost 95,000 HUD code homes produced by 34 U.S. corporations in 135 plants located at across the United States. MHI members are responsible for close to 85% of the manufactured homes produced every year.

Manufactured housing offers value to consumers because of the technological advancements and cost savings that are associated with the factory built process. And because of the efficiencies that come with our federal building code, MHI believes that the levels FHFA establishes in the next round of housing goals should be robust.

While housing goals are not by themselves sufficient to ensure that the enterprises' fully serve manufactured housing, robust housing goals are an important component in meeting this objective. As we all know, the enterprises are in conservatorship with continued underlying financial support by the federal government. Therefore, there is both a statutory responsibility and a policy imperative that the enterprises' use this status to serve the full range of the market, including low income, underserved and minority borrowers, and particularly manufactured home purchasers and homeowners.

As the enterprises continue their progress toward an exodus from conservatorship, it will become even more imperative that housing goals are robust and duly enforced. Were privatization to occur, there would be a greater focus on profits and an increased tendency toward purchase of high volume, high dollar loans, not those that serve the lower end of the market.

Therefore, it will be even more important both that the housing goals are robust and that the FHFA enforce the enterprises' duty to serve requirement with respect to purchasing manufactured home loans.

Today, MHI wants to make three important points in advance of the next FHFA housing goals rulemaking and promulgation. First, the FHFA should encourage Fannie Mae and Freddie Mac to develop flexible loan products for manufactured homes and to purchase manufactured home loans, including making this an important objective in FHFA's enterprises' scorecard.

Second, housing goals are important to manufactured housing for the simple reason that manufactured home loans are goal rich, since manufactured housing continues to be the most affordable segment of the homeownership market.

Third, since Fannie Mae and Freddie Mac have historically been able to meet housing goals without purchasing chattel loans, and have natural disincentives to purchase real property manufactured home loans, because they are not a "high volume product", duty to serve continues to have a critical role in ensuring that Fannie Mae and Freddie Mac are adequately facilitating the important homeownership option of manufactured housing.

I would now like to spend some time discussing the importance of the enterprises' duty to serve manufactured housing. In 2008, Congress established a statutory duty to serve requirement and made manufactured housing one of the three areas that Fannie Mae and Freddie Mac must serve. Congress did this because it concluded that the enterprises could routinely meet their housing goals without serving this critical, underserved market.

Since the creation of duty to serve, MH II has strongly advocated for Fannie Mae and Freddie Mac to meet this statutory duty for both chattel home loans and homes titled as real estate. While MHI is appreciative that Fannie Mae and Freddie Mac have introduced new programs that provide conventional financing for manufactured homes that are titled as real estate and have certain site built features, we are disappointed that the enterprises have not carried through on their duty to serve market plans to resume purchases of chattel manufactured homes, as a part of a longer term plan to gain market knowledge and develop a flow program for the purchase and securitization of chattel loans.

Both Fannie Mae and Freddie Mac had included the acquisition of existing chattel loans as a pilot project within their initial three year plans. Fannie Mae's plan included the purchase of 2000 chattel home loans through the end of 2020 and Freddie Mac's plan included the purchase of between 800 and 2,000 chattel loans through the end of 2020.

MHI understands that this has been a difficult period for mortgage markets and mortgage loans with the emergence of the COVID-19 health crisis. With the surge in unemployment, the enterprises' loan defaults have increased, and this may have been a factor in Fannie Mae and Freddie Mac not making any visible progress to develop a secondary market for chattel financing.

MHI was concerned about this very type of outcome. And at the time we expressed skepticism about the approach taken in the enterprises adopted duty to serve plans of starting by only purchasing existing chattel loans. We argued strongly that the underlying objective should be the creation of a flow program in which Fannie Mae and Freddie Mac purchase all chattel loans that meet specified underwriting criteria and securitize those loans into an evolving and efficient secondary market for chattel loans.

Fannie Mae and Freddie Mac appeared to share this goal at least based on language in their 2018 to 2020 duty to serve plans. Specifically, Fannie Mae's objective number two in their manufactured home duty to serve plan, was to "explore securitization structures that attract private capital and provide sustainable liquidity to the chattel market." Freddie Mac's plan indicated that the ultimate purpose of buying existing chattel loans was to "help inform future product design to build out capabilities for flow path."

MHI would like to reiterate that it was not the industry's idea to begin this process by having the enterprises' buy existing more seasoned chattel loans. However, the enterprises' chose to pursue this path, arguing that it would allow them to regain familiarity with the loan product and its financial performance. The first three year period of the GSEs duty to serve process has ended, and the enterprises have purchased zero chattel loans, zero.

MHI believes it is important for the enterprises to refocus their efforts on the ultimate goal of developing a flow program for purchase and securitization of chattel loans in order to create a true secondary market. Unfortunately, there was nothing in the 2021 plan amendments that address this critical imperative.

In conclusion, more support from FHFA, Fannie Mae and Freddie Mac in the manufactured housing market will not only strengthen homeownership opportunities for millions of Americans, but it will also provide more options to consumers hurt by unaffordable rents and the shortage of adequate housing options.

As stated previously, and in previous comment letters, manufactured housing is critically important to increasing the availability of affordable housing in America. Again, MHI appreciates the FHA for setting up this listening session to discuss potential changes to the regulation establishing housing goals for Fannie Mae and Freddie Mac. And we would welcome the opportunity to continue this dialogue with you. Thank you very much for the opportunity to participate today.

Jeanie Lemons: Thank you, Lesli. So we will now hear from Melissa Stegman. And after that we will hear from Hanna Pitz. Melissa, you can unmute.

Melissa Stegman: Yes. Hi there. Great, so thank you. My name is Melissa Stegman, I'm with the Center for Responsible Lending. Thank you for the opportunity to provide comments in today's listening session.

As FHFA considers future rulemakings implicating the affordable housing goals, including the housing goal benchmarks for 2022 to 2024, it is critical that the GSEs explicit public interest mission remain top of mind.

Additionally, there is urgency for FHFA and the GSEs to align with the administration's executive order on advancing racial equity. FHFA and the GSEs should focus explicitly on addressing racial homeownership gaps. Marginal improvements are insufficient given the GSEs charters, the GSEs responsibilities to underserved communities and borrowers of color, including to minority census tracks.

As research from the Urban Institute and Freddie Mac demonstrates, there are millions of mortgage ready borrowers of color that remain outside the system. The affordable housing goals are a key metric to ensure that the GSEs are striving to meet their mission obligations. The housing goals also push the GSEs to develop and market products that support the primary market to better serve underserved borrowers.

At CRL we have consistently called on FHFA to significantly increase the GSEs' affordable housing goals, particularly the low income purchase goal. The single family purchase goals have not significantly changed since 2015. But historic performance under a range of credit and business conditions shows that the GSEs are able to meet higher goals under a variety of different housing market conditions.

Furthermore, in a time of crisis, the GSEs have even more of a duty to serve the entire market, including meeting and surpassing the affordable housing goals. And borrowers should receive the benefit of more affordable homeownership at a time that interest rates are at historic lows.

We urge the low income purchase goal to be increased from 24% to 27% in the next goal setting cycle. Additionally, as we've detailed in previous comment letters, the GSEs should be required to meet both the benchmark and the market metrics. The market metric measures how the GSEs are performing compared to other conventional market entities and the GSEs should be leading the market by meeting or exceeding this goal.

With respect to the refinance goal, especially now during the COVID 19 crisis at a time of historic low interest rates, more borrowers should be able to benefit from the current refinance boom to save money on their mortgage payment. But unfortunately, the refinance surge is not reaching lower income and lower wealth families adequately, particularly borrowers refinancing smaller loan balances.

Refinance activity accelerated significantly in 2020, boosting the average FICO score even higher. The median credit score was 758 in February 2020 prior to the COVID crisis, and 772 at the end of 2020. At a time that the Federal Reserve is purchasing $40 billion in agency mortgage backed securities per month to help reduce the cost of buying or refinancing a home and to stimulate the economy, FHFA the GSEs should ensure that rate term refinances are more available, not more costly, for lower income families who would benefit greatly from the savings on their mortgage payment.

We urge the GSEs to create a streamlined refinance program to ensure that affordable refinances are more accessible to borrowers, especially borrowers of color. Moreover, the GSEs should not charge any LLPAs on a streamline, refinance as LLPAs were already paid at purchase. Such a policy would have an enormous positive impact during the current crisis, and would help the GSEs surpass their refinance affordable housing goals.

Moreover, whether the GSE can meet their goals does not happen in a vacuum. Other policies of FHFA and the GSEs impact this. And as we've urged in the past, we really urge FHFA and the GSEs to revisit their pricing policies and consider how the current structure is a barrier to the GSEs ability to purchase loans to meet its affordable housing goals.

Excessive risk based pricing by both the GSEs and private mortgage insurers, including through LLPAs and [inaudible 1:17:52] buyers, cumulatively adds significant cost to loans for borrowers with lower scores and less wealth for a down payment.

For example, the combination of loan level price adjustments and mortgage insurance premiums at over 270 basis points for the annual cost of a mortgage for a borrower with a credit score of 620 and LTD of 97%. Thus reducing differential pricing would likely further the GSEs loan purchases in underserved markets.

Also we are concerned about how the capital rule would impact the GSE's ability to meet the goals. We believe that more level pricing should be applied to more reasonable capital standards in recognition of the fact that the burden of past catastrophic market failure and future estimated systemic risk, and its potential disproportionate impact, should not be an undue responsibility of low wealth borrowers.

And we also strongly oppose the recent PSPA amendment provision, imposing limits on the support the GSEs can provide for various products. The single family loan limit restricts the GSEs purchase of so called high risk loans to 6% of their purchases, 3% or refinance mortgages, defined as loans with at least two of the following characteristics, greater than 90% LTD, greater than 45% DTI and credit score below 680.

And while the GSEs are inside these caps currently, this change goes in the wrong direction. The GSEs should be doing much more to address the affordable housing crisis and make responsible mortgage credit available to underserved families. They should not impose additional roadblocks. And holistic underwriting generally considers compensating factors and credit characteristics beyond LTD, DTI and credit score. So FHFA should not over rely on these factors and exclude credit worthy families from accessing the conventional loan.

FHFA should push the GSEs to more quickly adopt alternative credit scoring models to incorporate other factors, such as borrowers rental history, current scoring criteria, failed to include this data, which is the most analogous example of owning a home.

So we think that addressing all these that this a -- we have to look at all this holistically and like looking at pricing policies and its impact on the affordable housing goals is a really important analysis that FHFA in the GSEs should do. So I thank you again for the opportunity to provide comments during today's listening session.

Jeanie Lemons: Great. Thank you, Melissa. So we will now hear from Hanna Pitz, and after that, John Walsh.

Hanna Pitz: Hi there. Thank you to Director Calabria for your opening remarks and thank you Ms. Raman and Ms. Jeanie Lemons and the FHFA team for organizing this opportunity to share comments on the future of the enterprise housing goals.

My name is Hanna Pitz, and I'm a Senior Policy Advisor at the Mortgage Bankers Association, otherwise known as MBA. MBA believes housing goals are an important component of the framework by which FHFA can measure the enterprises' progress in promoting access to mortgage credit throughout the nation, and providing assistance to the secondary market to support housing for low and moderate income families.

MBA supports a dynamic market based approach to the enterprise housing goals that focuses on outcomes. To that end, I'd like to outline today two broad suggestions from MBA for the future the housing goals. As well as walk through MBA's list of guiding principles for consideration of new goals.

First, MBA recommends FHFA add qualitative goals to supplement, not replace, the current single family quantitative goals. The already existing quantitative market based target could be enriched by qualitative activity based targets to provide a more holistic approach to the housing goals. The enterprises could engage in projects like lender outreach campaigns and research initiatives to better overcome barriers to affordable housing. In particular, research initiatives could be highly beneficial to the marketplace and would serve as a public good.

MBA's second high level suggestion pertains to questions in the MPR regarding what are loan characteristics or underwriting features, such as loan to value ratios or debt to income ratios, should impact the ability to count fed loans towards the housing goals. MBA asserts that loans should not be excluded because of particular credit or underwriting features.

If a loan is deemed acceptable for purchase by the enterprises, it should meet any safety and soundness standards or borrower's sustainability standards related to the housing goals. MBA would also note that the amended PSPAs now limit risk layering and enterprise eligible loans, further suggesting that alone which meets eligibility standards should meet housing goal standards.

For my last few minutes, I'd like to briefly walk through MBA's set of seven guiding principles for the housing goals. Now these principles were first outlined by MBA a few years past in our broader policy research around housing finance reform.

First, MBA believes the goal should be transparent and well defined. For the quantitative targets, they should be specified as a number, percentage or range within a democratic, geographic or income based cohort. Qualitative targets should be assessed or graded according to established criteria that consider activities in combination with desired outcome.

Second, the goal should be assessed in terms of market impact. Briefly put, FHFA should focus on results that actually make a difference.

Third, the goals should be measurable. FHFA should use clear metrics to evaluate performance, and the results should be publicly available.

Principle number four is that the goals be enforceable. Failure to meet established goals should carry appropriate consequences.

Principle five is to recalibrate periodically. FHFA should provide for formal periodic opportunities for public input on potential refinements and adjustments to the goal. Any refinements or adjustments should be supported by research and data analysis.

Principle six is the goal should be reviewed to avoid market distortion. FHFA should ensure the goals do not inadvertently distort behavior or incentives given markets circumstances.

And finally, principle seven, suggests the goals should be balanced by safety and soundness. This may seem like a no brainer, but MBA felt it important to include the sentiment that FHFA should ensure the affordable housing obligations of the enterprises are balanced by prudent risk management practices.

This concludes my overview of MBA's comments on ANPR. Thank you again for the opportunity to share MBA's thoughts on the topic. And if you're interested in reading our full comments, in addition to being submitted to the public record, they are posted on our website in the all letters and testimony page. Thank you.

Jeanie Lemons: Thank you, Hanna. So now, John Walsh and Megan Ames is going to share her screen for the slides that you provided. So Megan, are you there as well?

John Walsh: Thank you. Sorry to be the only one with slides today making the FHFA work hard. Great. I'll get started. Thanks to Jeanie, thanks to all the FHFA staff for putting together this listening session.

My name is John Walsh, I am an analyst at the Housing Finance Policy Center at the Urban Institute. I see the slide is buffering a little bit but that's okay. I think, you know, they're only as meaningful as we want them to be. So I'll just continue on here for a second.

So in February of this year, Laurie Goodman, John Choy and I coauthored a brief with Edward Golding from the Massachusetts Institute of Technology, who is doing double duty I guess today on analysis. We analyzed the January 2021 amendment to the senior preferred stock purchase agreements.

And what we found was that the amendments limitations on GSE business practices will further diminish access to credit for families of color, who are disproportionately low and very low income, potentially counteracting the enterprise housing goals.

Borrowers of color are more likely to be high risk under the amendment's definition. What the first slide of the deck showed was a breakdown of the median FICO scores, median combined loan to value ratios for purchase and refinance mortgages, and median DTI ratios by race and ethnicity in 2019.

And what we see is that Black and Hispanic borrowers have lower FICO scores, they have higher CLTE ratios and DTI ratios than either non-Hispanic, White or Asian borrowers.

The data that we pulled for that comes from CFPB tabulations of their internal Home Mortgage Disclosure Act, or HMDA data. The publicly available HMDA data do not include information on FICO scores. Wherein the -- oh great okay, this will be more meaningful now.

So I'll quickly go back to -- so on slide one here, as I said, we show the breakdown of FICO scores, combined loan to value ratios and DTI ratios by race and ethnicity in 2019. You know, you pretty clearly see here that Black and Hispanic borrowers have lower FICO scores, they have higher CLTE ratios and DTI ratios than either non-Hispanic, White or Asian borrowers. Next slide, please.

As I was saying the data in slide one is internal CFPB version of the Home Mortgage Disclosure Act data. Unfortunately, the publicly available HMDA data do not include information on FICO scores, where slide one indicates that there are substantial differences by race and ethnicity in that area. But we were able to look at CLTE and DTI ratios.

So slide two here shows that for GSE purchase mortgages made in 2019, more than twice the share of Black and Hispanic borrowers versus White borrowers, so that's 8.75% versus 4.07% would be considered high risk as determined by FICO scores and LTD ratios alone.

Looking at purchase denials of conventional mortgages, we find that 27.4% of denials of Black borrowers and 18.1% analysis of Hispanic powers were considered high risk as measured by LTD and DTI ratios only. This compares with 8% of White borrowers and 5.3% of Asian borrowers.

Because of the technicalities in HMDA reporting, our calculation of denial shares is actually based on the entire conventional loan population, while originations share make the more relevant comparison of loans purchased by the government sponsored enterprises.

The refinance denials also show a higher share of Black and Hispanic borrowers in the high risk category, as defined by the PSPAs. Although the absolute numbers are much lower.

Data availability has made our results on the racial implications of the PSPA, the PSPA amendment incomplete. Because the public comment data does not provide FICO information, the differential impact of the PSPA limitations described in slide two is likely to actually underestimate here, due to large disparities in FICO scores highlighted in slide one.

Also, smaller originators are excused from reporting some of their lending data. And so we did not capture the full population of GSE loans, albeit we have the overwhelming majority. We believe PSPA limitations in a more normalized environment would make it more difficult for the enterprises to provide mortgage credit to households of color.

While we were not able to assess the impact on the housing goals, we know that households of color disproportionately low income, the very population the housing goals are intended to serve.

It is important that FHFA actions be transparent and consistent. In this spirit, the FHFA should release an evaluation of the PSPA amendment's impact on the housing goals to the public. The FHFA is best situated to quantify the amendment's impact on low income families as well as the racial composition of those affected.

Similarly, we would ask the FHFA release publicly the data on the interaction between the capital rules and the housing goals. Thank you so much, thanks to FHA for making the time for this. That concludes my notes.