NCRC Testimony at FHFA Listening Session and Comments in Response to FHFA RFI on Equitable Housing Finance Plans

Josh Silver, Senior Advisor, NCRC, June 5, 2024

The National Community Reinvestment Coalition (NCRC) appreciates this opportunity to comment on the equitable housing finance plan requirement for the Government Sponsored Enterprises (GSEs). The GSEs, Fannie Mae and Freddie Mac, are major entities in the secondary market providing liquidity for banks and other lenders when they purchase home loans made by the primary market lenders. In order to promote fair lending goals and equitable access to people of color and underserved communities, the GSEs and the secondary market must be subjected to fair lending regulations that are as strenuous as those imposed on primary market lenders. However, over the years, the fair lending oversight of the GSEs seems to have been opaque.

The Federal Housing Finance Agency's (FHFA's) equitable housing finance plan requirement has the potential to increase the transparency and accountability of the GSEs in serving people of color and traditionally underserved communities. The key, however, is whether the equitable housing finance plans are rigorous. In their present form, the plans represent a start but need to be enhanced by adding more precise performance measures and clearer opportunities for public input and participation in their formation.

NCRC is a network of more than 700 community-based organizations dedicated to creating a nation that not only promises but delivers opportunities for all Americans to build wealth and attain a high quality of life. We work with community leaders and policymakers to advance solutions and build the will to solve America's persistent racial and socio-economic wealth, income, and opportunity divides, and to make a Just Economy a national priority and a local reality. Secondary market institutions including the GSEs are vital partners in our Just Economy endeavors.

Partnership Building Spurred by Equitable Planning Requirement

The equitable housing finance plans have the potential to increase partnerships among the GSEs, community-based nonprofit organizations, and banks. For example, under a partnership between Fannie Mae and Southside Community Development and Housing Corporation based in

Richmond, Virginia, Fannie Mae will support the development of affordable ownership and rental housing in a rural area with concentrations of African Americans. Southside will provide counseling to residents and will produce resource guides that will help other rural communities engage in affordable housing development.[1]

In the absence of the equitable plan requirements, it is likely that there would be fewer partnerships like this one. However, the precise amount and form of Fannie Mae financial support for the Virginia partnership or other efforts is not readily apparent from its 2024 update to its equitable housing plan. Also, more information on selection criteria would help community groups figure out whether Fannie Mae is targeting underserved communities. It would also help nonprofit organizations devise strategies for best approaching Fannie Mae about potential partnerships.

Examples of Barriers the Plans Address – A Good Start but Improvements Needed

Under the FHFA regulations, the equitable housing finance plan is a three-year plan of each GSE that identifies barriers to affordable housing for underserved communities and how each GSE will help overcome those barriers. The plans adopt measurable goals for financing housing in underserved communities. The GSEs update their plans and report on goal attainment annually.[2]

A barrier that Fannie Mae chose to address in its equitable housing plan was reliance on credit history reporting in underwriting loans. A reliance on credit history poses difficulty for populations with a lack of traditional credit history to qualify for loans. To increase access to credit, Fannie Mae has provided subsidies to owners of multifamily housing to report positive rental payment to the credit bureaus. Under this effort, 117,000 borrowers were assisted, but the pilot program will end in 2024.[3] Fannie Mae should report on the success of the program such as whether it resulted in loan approvals for applicants that may have otherwise been rejected due to

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[1] Fannie Mae Equitable Housing Finance Plan, 2024, p. 16-17, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FNM-2024-EHFP-Update.pdf

[2] Federal Housing Finance Agency (FHFA), 12 CFR Part 1293, RIN 2590-AB29, Fair Lending, Fair Housing, and Equitable Housing Finance Plans, pp. 67-71, https://www.fhfa.gov/SupervisionRegulation/Rules/RuleDocuments/Equitable%20Housing%20Final%20Rule%20for%20Web.pdf

[3] Fannie Mae Equitable Housing Finance Plan, pp. 7,12,19.

a lack of traditional credit history. More information about the degree of success would enable community groups to offer specific recommendations about whether this effort should be renewed and how it can be improved.

Another strategy used to address barriers to credit for underserved communities is the use of Special Purpose Credit Programs (SPCP). Lenders and GSEs have designed SPCPs to serve traditionally underserved populations and communities, including people and communities of color, identified through data analysis. SPCPs are also eligible for Community Reinvestment Act (CRA) credit in the 2023 final CRA rule.[4] Each GSE now finances about 10,000 SPCP loans annually (as is stated in each of their updates to their housing equitable plans), but it is hard to discern from the updates to the equitable housing plans whether this figure represents an increase from past years.[5] It is also unclear whether the SPCP loan volume will increase the number or percentage of home purchase loans for people of color nationally or in certain geographic areas.

Even though Fannie Mae and Freddie Mac have significant market share in purchasing loans, it is unlikely that Fannie's and Freddie's combined 20,000 SPCP purchases will increase the percentage of home purchase loans that people and communities of color receive nationally. The GSE SPCP loan volume is just 3 percent of the home purchase loans that African Americans and Hispanics received in 2022 (about 604,000 loans), the most recent year for which data is available.[6] Three percent seems too low to move the needle nationally. It is also probably an overestimate because the GSEs do not report precise numbers of loans for each racial and ethnic group, and broadly refer to African Americans and Hispanics in their equitable plans.

Thus, to make the reporting in the Equitable Plans more meaningful, the GSEs should report a few key indicators about their SPCP activity. Firstly, they should document how their SPCP loan purchases compare with previous years.' Secondly, they should estimate whether their annual

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[4] Kevin Hill, *NCRC's Guide To The 2023 Community Reinvestment Act Final Rule*, December 2023, https://ncrc.org/ncrcs-guide-to-the-2023-community-reinvestment-act-final-rule/
[5] Fannie Mae, *Equitable Housing Finance Plan*, p. 22; Freddie Mac, *Equitable Housing Finance Plan*, April 2024, p. 5, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FRE-2024-EHFP-Update.pdf
[6] Consumer Financial Protection Bureau, *Data Point: 2022 Mortgage Market Activity and Trends*, September 2023, Table 2, p. 18, https://files.consumerfinance.gov/f/documents/cfpb_data-point-mortgage-market-activity-trends_report_2023-09.pdf

SPCP purchases will make a difference in increasing access to credit for underserved borrowers at state, metropolitan or county levels. Thirdly, they should report whether they are working with banks to focus on specific metropolitan areas or rural counties.

Fannie Mae's and Freddie Mac's equitable plans tout the downpayment assistance prevalent in SPCP programs. While this is laudable, neither GSE discusses increased closing costs and fees in loans as possible barriers that need to be addressed in downpayment assistance programs. According to NCRC research, the average dollar amount of loan costs and fees increased 62% from $5,757 in 2021 to $9,310 2023. Likewise average home prices have increased significantly since the pandemic. Fannie Mae's description of its program, HomeReady, discusses $5,000 in closing cost assistance.[7] However, has this level of closing cost assistance been overwhelmed by increases in loan costs and housing prices? Should closing cost assistance increase annually to keep pace with the changes in loan costs and housing prices (which could be calculated at a metropolitan and county level to consider differences across the country). Freddie Mac's description of its program, Home Possible, discusses 3% downpayments available under the program.[8] Similar questions need to be posed – should this percentage be increased annually to consider increases in loan costs and housing prices? Future equitable plans should discuss how the GSEs will address the barrier of increasing home loan and price costs in SPCPs and downpayment assistance programs.

Another example of incomplete reporting in the 2024 updates to the equitable housing plans is Freddie Mac's pledge to finance climate resiliency improvements for 10,000 affordable housing units annually.[9] While this is commendable, is it an improvement from past years and in which geographical areas will the financing occur? Is Freddie Mac working with lenders and community groups to target geographical areas in greatest needs for climate resiliency or areas with needs for different types of climate resiliency ranging from protections against floods to increases in efficiency in heating and cooling homes?

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[7] Fannie Mae, *Knocking down barriers for first-time homebuyers*, https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/homeready-first

[8] Freddie Mac, *Your Guide to the Home Possible® Mortgage*, https://sf.freddiemac.com/working-with-us/affordable-lending/guide-to-home-possible-mortgage

[9] Freddie Mac, *Equitable Housing Finance Plan*, p. 31.

Finally, the numbers of housing counseling clients should be reported more precisely. For instance, Fannie Mae's update reports that a partnership it established with the Local Initiatives Support Corporation (LISC) and its local partners will serve 1,500 clients by the end of 2024.[10] Elsewhere, Fannie Mae provides additional data for other housing counseling initiatives. While the data may seem impressive, the reader does not have an easy reference to the total number of clients served by all programs and how that compares to previous years. Further, some impact data such as how many clients became homeowners or increased their credit scores would help readers evaluate the effectiveness of the partnerships.

NCRC's proposal for local evaluation metrics would ensure a wider distribution of capital and credit to underserved communities

When the FHFA proposed regulations for the housing equitable plans last year, it implied that national level analysis alone would be insufficient in ensuring that local and underserved areas were priorities for the GSEs and their equitable housing finance plans. The FHFA quoted the GSEs' authorizing statutes as requiring the GSEs to "promote access to mortgage credit throughout the nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing."[11] This legal requirement cannot be effectuated only with national goal setting. Under the Affordable Housing Goals, a GSE could theoretically meet its goals by focusing on areas of the country in which it is easiest to purchase loans made to low- and moderate-income borrowers and/or in underserved communities and communities of color. This gaming would not improve the distribution of capital and mortgage credit throughout the nation across the plethora of metropolitan areas, rural areas and underserved areas.

In its proposed equitable housing finance plan requirements, the FHFA recognized the importance of considering local conditions and local GSE performance. In a discussion about the

[10] Fannie Mae, *Equitable Housing Finance Plan*, p. 14, p. 24.
[11] Cornell Law School, Legal Information Institute, 12 U.S. Code § 1716 - Declaration of purposes of subchapter, https://www.law.cornell.edu/uscode/text/12/1716#:~:text=manage%20and%20liquidate%20federally%20owned,loss%20to%20the%20Federal%20Government.

benefits of disaggregated data, the FHFA observed that while "the overall homeownership gap between Black and White homeowners is 29.6 percentage points, in Minneapolis the gap rises to 50 percentage points."[12] Disaggregated and local analysis provides a precise measurement of access to credit and homeownership, which will vary across the nation for traditionally underserved communities. Unfortunately, the final FHFA regulation did not include systematic planning requirements to assess and respond to differences in credit needs in localities.

To rectify this, NCRC proposes that the FHFA add local evaluations to its equitable planning processes. The FHFA would conduct an analysis of local GSE performance once every three years to coincide with the development of new GSE Equitable Housing Finance Plans. The FHFA would identify the following distinct groups of metropolitan areas and rural counties. This proposal is based on previous NCRC research and white papers:[13]

- *Areas in which the GSEs and the primary market both perform well* in reference to demographic benchmarks. This could be measured as the percentage of loans being similar to the percentage of households that are low- and moderate-income or people of color.
- *Areas in which both GSEs (or one GSE) outperform the primary market.* This could be measured by the percent of loans the GSEs purchase that are made to people of color or modest income borrowers being higher than the percent of loans lenders make to these populations.
- *Areas in which the primary market outperforms Fannie Mae and/or Freddie Mac* in serving traditionally underserved populations.

[12] FHFA notice of proposed rule, *Fair Lending, Fair Housing, and Equitable Housing Finance Plans,* Federal Register**,** Vol. 88, No. 80, Wednesday, April 26, 2023, p. 25296.
[13] Patrick Boxall and Josh Silver*, Performance of the GSEs at the Metropolitan Level*, in Cityscape: A Journal of Policy Development and Research, pp. 145-217, Volume 5, Number 3, Office of Policy Development and Research, Department of Housing and Urban Development, https://www.huduser.gov/Periodicals/CITYSCPE/VOL5NUM3/boxall.pdf

- *Underserved Areas in which both the primary market and the GSEs are underperforming* in that the shares of loans are the lowest compared to the percentage of low- and moderate-income or people of color. An alternative measure for underserved areas is home loans per capita at a census tract level. NCRC has found in previous research that about 57 percent of the residents, on average, are people of color in the quintile of tracts in which loans per capita is the lowest.[14]

The federal bank agencies finalized performance measures and thresholds for comparing banks in CRA exams to industry and demographic benchmarks that are similar to NCRC's proposal for GSE planning.[15] The federal agencies used historical CRA performance of banks over several years to develop its lending test measures in their changes to the CRA regulation. NCRC urges the FHFA to consult with the federal bank agencies in developing local evaluation measures for the GSEs at metropolitan and county levels.

Responding to the FHFA evaluation of local performance, the equitable housing finance plans would require the GSEs to describe how they will maintain performance in the areas in which they do well. They could describe how they perform well in these metro areas or rural counties; do partnerships with nonprofit organizations or local government agencies help the GSEs reach underserved populations, for example? The equitable housing finance plans would then require the GSEs to focus on areas in which they are being outperformed by their counterpart GSE and/or the primary market. The plans would also address areas where neither the primary nor secondary market is performing well. The GSEs can describe underwriting reforms, product changes, and new marketing approaches that would help them improve performance in their areas where they are lagging.

Goals could describe how, as the FHFA stated, a GSE would reduce significant disparities "in the share of loans acquired by the Enterprise compared to the share of loans originated to

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[14] Bruce Mitchell, PhD. and Josh Silver, *Adding Underserved Census Tracts As Criterion On CRA Exams* (Washington, D.C., NCRC, January 14, 2020) https://ncrc.org/adding-underserved-census-tracts-as-criterion-on-cra-exams/
[15] Kevin Hill, *NCRC's Guide To The 2023 Community Reinvestment Act Final Rule*, December 2023, https://ncrc.org/ncrcs-guide-to-the-2023-community-reinvestment-act-final-rule/

members of that underserved community in the overall mortgage market."[16] The FHFA could decide what is the minimal progress required for the GSEs to meet or exceed the goals on their equitable housing finance plans. For example, the FHFA could require that by the end of the three years in an equitable housing plan, the GSEs must measurably decrease disparities between the share of loans lenders issue to low- and moderate-income borrowers and the share of loans they purchase made to these borrowers in at least one third of the areas in which the GSEs were underperforming.

At the very least, performance in the localities grouped by the above categories should be displayed on a FHFA website in color coded maps as well as numerically in FHFA tables at the beginning and end of the Housing Finance Plan terms. In this manner, the general public and local stakeholders have an improved ability to hold the GSEs accountable and approach them for partnership opportunities in geographical areas where they lag the primary market and in underserved areas where both the primary and secondary market are financing a low level of loans compared to demographics.

Banks' CRA requirements are local in nature. CRA examiners assess banks in metropolitan areas and in rural counties where they have branches. In addition, the federal bank agencies added assessment areas to include geographical areas without branches that exceed the thresholds of 150 home loans or 400 small business loans.[17] These areas lacking branches nevertheless are metro areas or rural counties in which banks have engaged in a significant amount of business activity and must therefore be held accountable for their CRA performance. Banks would be aided significantly in serving a variety of local areas if GSE evaluations included assessments on a local level. By holding GSEs accountable, FHFA local evaluations likely would increase GSE local purchasing activity and improve the banks' abilities to secure financing for their lending activity.

[16] FHFA proposed rule on equitable housing finance plans, p. 25304.
[17] Kevin Hill, *NCRC's Guide To The 2023 Community Reinvestment Act Final Rule*.

A Lack of Data and Explanation for Defining First Generation Homeowner

The Request for Information (RFI) asks if the definition of first-generation homeowner developed for the equitable housing plans effectively focuses on households who have had the least access to wealth building opportunities. NCRC believes that the FHFA has not presented sufficient data and explanations from which the public can offer informed opinions about policy choices. The RFI contains the definition of first-generation homeowner but does not refer the reader to either a report conducted by the FHFA or any other research organization.[18]

In response to this question, NCRC found a blog by the Urban Institute that describes alternative definitions and the number of households that would quality under each definition.[19] The blog, however, is also too sparse for us to offer an informed opinion. It does, however, prompt us to ask for more information from the FHFA. For example, we would like to know the demographics, the income levels, wealth information (if possible), and the geographical distribution of households qualifying under alternative definitions.

Public Input Opportunities Need to be Enhanced

The public input opportunities for helping the GSEs develop and improve their housing equity plans are not transparent. The final FHFA regulation requires that GSE draft plans be submitted to the FHFA by September 30 of the year prior to the first year covered by the plan.[20] The final regulation also requires the GSEs to consult with stakeholders in the development and implementation of their plans.[21] However, NCRC did not see any announcements by either Fannie Mae or Freddie Mac on their websites regarding public meetings or other input opportunities in the development of their plans.[22]

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[18] FHFA Request for Input, Fannie Mae and Freddie Mac Equitable Housing Finance Plans, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/EHFP-RFI-2024.pdf

[19]Aniket Mehrotra, Jung Hyun Choi, Janneke Ratcliffe, *First-Generation Homebuyers Face Significant Obstacles to Homeownership. To Help, Programs Can Define What "First-Generation" Means,* November 17, 2023, https://www.urban.org/urban-wire/first-generation-homebuyers-face-significant-obstacles-homeownership-help-programs-can

[20] FHFA, Fair Lending, Fair Housing, and Equitable Housing Finance Plans, p. 71.

[21] Ibid., p. 75

[22] See these search results. For Freddie Mac: https://freddiemac.gcs-web.com/search?query=housing+equitable+finance+plan&f%5B0%5D=type%3Anir_news&op=Search, For Fannie

The GSEs should hold public meetings over a several month period. Since a three-year plan is due on September 30, the first meeting should early in the year, around January or February, so that the GSEs can gather input regarding what barriers the plans should address. Then when the GSEs have developed their first drafts, they should hold another meeting to gather comments on the first drafts, perhaps in the spring or early summer. They should then hold a meeting after the plans are finalized to explain their choices on key matters and in response to community input. At a minimum, three virtual meetings should be held – one for gathering initial thoughts from the public, one on the first draft of the plans, and one on the final drafts. Additional meetings in person could also be held. Public meetings throughout the process are the best means for gathering input and carefully amending plans in response to valid and pressing points raised by the public and community organizations.

The FHFA should itself consider adding at least one more virtual meeting to its calendar. In addition to the meeting before June 15 of each year, it could hold one in the beginning of the year to receive additional views from the public and to review how it responded to points raised at the June meeting.

Conclusion

NCRC believes that housing equitable finance plans are an important enhancement to the fair lending oversight of the GSEs and have the potential to bolster GSE fair lending performance by holding them more publicly accountable. However, the full potential of the plans will not be realized until the performance measures become more precise and rigorous. The FHFA should provide maps and tables containing information regarding GSE performance on a metropolitan and county level so that stakeholders have improved abilities to comment on GSE performance in their localities.

Public engagement opportunities need to be more transparent and frequent in order to increase public input and further motivate the GSEs to establish partnerships and respond to local needs for credit. Lastly, the FHFA should make its role clearer in enhancing the housing equitable

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Mae, see https://www.fanniemae.com/newsroom/fannie-mae-news?start_date=&end_date=&combine=equitable+housing+finance+plan

finance plans. The regulation states that the FHFA will provide "feedback" to the GSEs on their draft plans.[23] But will the FHFA require the use of more precise performance measures when warranted or will it require the GSEs to address needs that draft plans have not covered?

[23] FHFA, Fair Lending, Fair Housing, and Equitable Housing Finance Plans, p. 75.