Comment on the FHFA's RFI on Duty to Serve plans developed by the Enterprises (Aug 12th, 2024)

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The Enterprises (Fannie Mae and Freddie Mac) have a Congressionally-mandated duty to serve (DTS) in three areas: affordable housing preservation (AHP – focused on multifamily housing), manufactured housing (MH – explicitly including chattel), and rural housing. The FHFA and the Enterprises release new three-year DTS plans every three years, with the latest FHFA's request for input (along with the proposed plans by the GSEs) released by the FHFA this June.

The Enterprises' DTS plans continue to be underwhelming. I summarize the actions needed, discuss the crucial importance of DTS, and then detail the main underlying issues in each of the three DTS areas (often interrelated), potential actions, and new DTS metrics.

Summary

The FHFA can transform both AHP and MH landscapes, and make inroads in rural housing:

1) **Affordable Housing Preservation**: The Enterprises have to ensure that landlords qualifying for AHP actually serve the lowest-income residents that need it the most. Simply checking whether rents are sufficiently low when landlords apply for multifamily mortgages is far from sufficient. In particular, actions should include:
    a) An FHFA online portal for tenants to submit complaints about Enterprise-backed buildings, with statistical summaries to be made publicly available by the FHFA;
    b) Expanded rent roll data collection, including asking for eviction, habitability, and pricing data (including various fees), with statistical summaries to be made publicly available by the FHFA, ideally at least at the county-quarter level;
    c) A host of tenant protections (far beyond the minimal protections the FHFA recently announced), including no source of income discrimination and limiting to just cause evictions – protections that tenants already get from multiple jurisdictions and other federal programs like low-income housing tax credit.
    d) Such data collection would allow for more protections and landlord monitoring. Such monitoring could potentially curtail exploitative and unfair practices, unnecessary evictions, and fair housing violations in federally-backed buildings.
2) **Manufactured Housing**: The Enterprises and the FHFA should be commended for implementing pad lease protections for Manufactured Housing Communities (MHC) and residents who own their homes but not the land underneath, in particular for protection 1 (out of 8), entitlement to "one-year renewable lease term." However, this protection is meaningless when, as the FHFA Director Thompson recently witnessed first-hand in Ohio, the MHC owners can raise rents by astronomical amounts while the residents who own their homes are held hostage due to the high cost of moving their home out.[1] Accordingly, the FHFA should require the Enterprises to:

[1] See also https://www.freep.com/story/news/local/michigan/2024/03/23/michigan-mobile-home-residents-rent-trailer-conditions/72687676007/ for similar issues in Michigan.

    a) Include a pad protection to require MHCs to provide an option for home-owner residents to sign a ten-year lease, with limited rent increases and no fees for breaking it after the first year.
    b) Set goals for the Enterprises to originate home-only ("chattel") MH mortgages, which would be considerably more stable with such ten-year leases. The goals should be meaningful – in 2027 each Enterprise should originate at least 10,000 such loans. Yet another pilot that takes years, and where the results are never publicly released, will not do.
    c) Include a pad protection to ensure that MHCs have incentives to keep their home-owning residents: for example, requiring MHCs to pay any MH home-owner who moves out after their ten-year contract or is forced to move by the MHC during their contract to be paid $5,000 toward moving costs.
3) **Rural housing**: Arguably the main differences in rural housing is that land is often cheaper (resulting in the increased need for smaller-dollar mortgages, support for manufactured housing, and multifamily housing typically being prohibitively expensive) and the density is much lower (making appraisals and other services more difficult). Accordingly:
    a) Set goals for each of the Enterprises to originate at least 35,000 purchase first-lien mortgages for homes valued below $150,000 to low to moderate income rural households in 2027.
    b) Set goals for the Enterprises to evaluate in 2025 which components of the almost $12,000 in mortgage origination costs per loan are due to Enterprises' requirements and other government requirements (including the CFPB's rules), and reevaluate the Enterprises' requirements for smaller loans.
    c) Both human appraisers and AVMs have difficulty appraising rural properties accurately, as pointed out by the FHFA staff research from 2018. However, AVMs had only gotten better since then. In 2025, the Enterprises should publicly release updated AVM performance in rural areas, and decide when an effectively-free AVM can substitute for a $700 or so human appraisal (that is likely to be very inaccurate as well) especially for a smaller transaction, along the lines of an earlier Urban Institute proposal.
    d) Set goals for the Enterprises to develop more automated options for interest rate drops in response to market rate movements for smaller loan amounts, as smaller-dollar refinances are both in short supply and are often cost-prohibitive.
    e) Set goals for the Enterprises to help local jurisdictions to digitize various property records, to record liens, title changes, evictions, and foreclosures more accurately and in a more timely manner.

DTS plans are the most politically-stable and explicitly-defined part of the Enterprises' public mission

DTS plans are crucial as they are the only explicitly Congressionally-mandated duties of the Enterprises in these three areas. For example, cross-subsidization of lower-credit score or lower-downpayment single-family borrowers is not mandated by Congress, or even by any FHFA regulations. The GSEs do have affordable housing goals, also on a three-year cycle, focused on lower-income borrowers, and cross-subsidization is not inherent in these goals, but often accompanies these goals. Any Republican administration is likely to be vary of cross-subsidization or of aggressive affordable housing goals, and might simply cancel the new equitable housing finance plans.

It is crucial for the FHFA to pivot the Enterprises onto the right DTS track, as that might be the most lasting achievement of this Administration in housing finance, along with normalizing forbearance practices from the pandemic.

Details: Affordable Housing Preservation (AHP)

The US is in a housing crisis where tenant protections are barebone and evictions are extremely harmful to households. Tenants (relative to homeowners) are disproportionately lower-income, Black, and Hispanic. Even within tenants, Black and Hispanic tenants have worse outcomes than average.

The Enterprises jointly securitize around 45% of the outstanding multifamily mortgages, thus have an enormous amount of influence on the market, and could make dramatic improvements to tenants' well-being, which would disproportionately benefit lower-income and Black and Hispanic tenants. Black and Hispanic Americans are experiencing even worse housing outcomes than whites, and of course the same is true for lower-income residents. In particular, this gap appears in each of the following aspects of housing: homelessness, evictions, cost-burdened renters, homeownership rate, home equity accumulation, equity enhancing and stripping activities (refinances during lower interest rate periods for example pandemic vs cash-out refinances into higher interest rates now), and foreclosure rates. The outcomes, in each of the above, are frequently 1.5x-2x worse for Black Americans.[2]

Instead, the Enterprises have accomplished virtually nothing for tenant protection. Enterprises can standardize and scale tenant protections across the US, and lead the way to making those protections a norm. Some protections do not need to be studied, as we know the right answers already: for example, requiring no source of income discrimination from multifamily borrowers (putting tenants with housing choice vouchers and social security supplemental income on equal footing, like they already are in LIHTC buildings) and requiring just cause/good cause evictions only. Other protections require nuanced considerations and study, like slowing the eviction process for households that can document sudden hardships (medical conditions or unemployment), especially those with small children.

Arguably even worse, we do not know the basic facts, and Enterprises have no plans to collect or analyze the data. For example, whether Enterprise-backed buildings have lower eviction rates, all else equal or whether Enterprise-backed buildings have lower rents all else equal, and whether both are still true in neighborhoods with large Black and Hispanic populations. We also

[2] See, e.g., https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2024.pdf, https://www.huduser.gov/portal/sites/default/files/pdf/2022-AHAR-Part-1.pdf, and https://evictionlab.org/demographics-of-eviction/.

do not have a standardized way for tenants to submit their complaints about landlords breaking various laws and rules.

To choose one of the metrics that might be less familiar to the FHFA, evictions are back to the pre-pandemic levels (and in many places exceeding pre-pandemic).[3] We know that evictions are incredibly detrimental to households, both at the moment and going forward, and both from documented lived experience and from sophisticated econometric research.[4] Limiting evictions per hundred multifamily apartment units qualifying for DTS (or affordable housing goals, or equitable housing finance plans) should be an eventual goal for the Enterprises. Unfortunately, it is impossible to set it now because the Enterprises and the FHFA do not even know how many tenants get evicted each year from the properties backed by the Enterprises.

As we noted elsewhere, "additional protections could reduce the number of Enterprise-backed mortgages for landlords who do not require federal backing but who currently benefit from it. For example, protections may encourage landlords of luxury buildings who do not want to rent to voucher holders to get private financing for a mortgage. Or they may discourage landlords who do not maintain their property, and do not want their tenants to be able to use the complaint portal, from seeking federal funding. Not backing these landlords would decrease risk to the Enterprises and save taxpayer dollars."

Imposing such protections and data reporting requirements is consistent with the DTS mandate – affordable housing should actually be available on reasonable terms to residents who urgently need it (for example, residents with housing choice vouchers). Moreover, such protections and data reporting requirements are a transparent way to ensure that only the landlords who really need Enterprise-backed loans receive them.[5]

Actions that could be completed for all AHP properties starting in 2025 Q1 (or late 2024)[6]
The following actions are by far the most frequently mentioned protections and concerns,[7] and almost surely disproportionately affect lower-income and Black and Hispanic tenants. Requiring these practices from multifamily borrowers is arguably simply affirmatively furthering fair housing outcomes, as is Congressionally required of all government agencies (including the FHFA).[8] Some of these practices are already required by various jurisdictions and government programs (for example, LIHTC), and thus will not be a surprise to landlords, did not crash multifamily markets in jurisdictions and in the programs that require them, and should be presented as an addendum requirement to the multifamily mortgages going forward (like lease pad requirements

[3] See, e.g., https://evictionlab.org/ets-report-2023/.
[4] See, e.g., https://evictedbook.com/ and https://academic.oup.com/qje/article-abstract/139/1/57/7276608.
[5] If a future administration wants to reduce the scope of the multifamily portfolio, imposing such protections and data requirements is both consistent with Congressional DTS mandate and is also less risky than simply raising guarantee fees (as higher guarantee fees would simply attract riskier borrowers).
[6] Much of the action recommendations is based on https://www.urban.org/sites/default/files/2023-11/Ensuring%20Tenant%20Stability%20in%20Federally%20Backed%20Rental%20Properties.pdf.
[7] See, e.g., https://www.fhfa.gov/sites/default/files/2024-01/rfi-summary-tenant-protections-january-2024.pdf.
[8] See https://www.hud.gov/AFFH.

in manufactured housing communities and like the recently proposed protections for all multifamily loans).

1) Not discriminating based on source of income – already prohibited in many states and municipalities, and prohibited in LIHTC properties that are often backed by Enterprise multifamily mortgages.[9]
2) Limit evictions to just (good) cause only. There are already multiple large jurisdictions requiring this, for example, states of CA, NJ, NH, OR, and WA.[10] Just (or good) cause evictions should include the option for the landlord to not renew the lease once the lease is over. There are many reasons for why the tenant and the building/landlord/neighbors might not be a good match, for example various nuisance and noise concerns.
3) Requiring landlords to pay $200 as a fee for each eviction, either to the Enterprises or the lender. Research suggests that a relatively small fee like this could considerably lower the incidence of eviction.[11]
4) Not using debt collectors and not reporting debts to credit bureaus. The reporting to the credit bureaus and debt collectors is very haphazard, and sends the tenant into a tailspin of housing insecurity. Future landlords who require only the most pristine tenant records will likely use signals like checking account inflows and outflows that might be considerably more informative than previous debt collections.
5) Requiring right to habitability and habitability transparency, with bright lines for when the tenant can move out before the end of the lease without being stuck with a massive amount of debt, for example if there is "no heating (during cold weather), no running or hot water, or no electricity or unusable accessibility accommodations (elevators or ramps), with the landlord failing to fix the issue or to provide alternative accommodation for more than two business days after being informed."[12] The landlord should also have the duty to inform all tenants in a building when there is either an open code violation from the country or the city, or when one or more of the tenants are dealing with a particular glaring issue that could warrant ending the lease early without penalties. Such transparency would enable other tenants to also report issues, and move out if necessary.
6) Establishing a tenant reporting portal, mirrored across the Enterprises and the FHFA. The reporting portal could be as simple as the one at the FTC, or as sophisticated as the one at the CFPB – the right start might be the FTC version, to follow with the CFPB version later, while allowing the data to flow in. The FHFA already established during the

[9] Fannie Mae already had an initiative in North Carolina and Texas, offering lower rates to borrowers who commit not to discriminate on source of income. However, that's too low of a bar, especially given the prohibition in LIHTC and multiple states – it should not be an option, nor should the Enterprises pay for it.

[10] See, e.g., https://nlihc.org/sites/default/files/Promoting-Housing-Stability-Through-Just-Cause-Eviction-Legislation.pdf.

[11] See https://evictionlab.org/tenants-pay-for-cheap-evictions/. However, in some jurisdictions landlords can simply charge the evicted tenant this fee, see https://www.networkforphl.org/wp-content/uploads/2021/05/Fact-Sheet-Deterring-Serial-Eviction-Filing.pdf

[12] See https://www.urban.org/sites/default/files/2023-11/Ensuring%20Tenant%20Stability%20in%20Federally%20Backed%20Rental%20Properties.pdf, p 13. See also https://www.uniformlaws.org/viewdocument/final-act-119/, §302.

pandemic a portal that allowed tenants to check whether the property is backed by an Enterprise multifamily loan. Extending that portal to allow tenant complaints should be trivial.

7) Limit security deposits to one month of rent, and allow security deposit alternatives (like insurance protecting the landlord).
8) Not discriminating whether to accept an application from a tenant based on previous incarceration history, at least for non-violent crimes. Not discriminating based on arrests (as opposed to convictions) or filed evictions (as opposed to completed).

There are many other potential considerations, but many would likely fall into price transparency issues and unfair and deceptive practices. For example, dozens of unavoidable fees, consistent practices of charging ever increasing rents to households who find it hard to move out, and using mandatory arbitration clauses to prevent tenants' class actions.

Data to be collected starting in 2025 Q1 (or late 2024)

Unlike the actions above, there will be many other potential actions for which it is not clear whether they should be undertaken or what the best method is of imposing a particular requirement. However, the Enterprises and the FHFA will continue living in the dark without data collection. Here is some data that the Enterprises should start collecting immediately:

I) *Monthly rent rolls with tenant performance and outcomes*. Multifamily borrowers already submit rent rolls, some of them have to do so annually. However, the rent rolls miss crucial information – for example, how many tenants get evicted (and primary reasons), how many tenants are currently behind on their payment (and total arrears), how quickly tenants get evicted once they fall behind, what the rent increases in the building are, whether tenants reported habitability issues prior to being evicted and prior to falling behind on rent, and so on.[13] This information, especially combined with the property's address and census tract characteristics, is crucial for ensuring fair housing outcomes, but could also help with predicting multifamily borrower distress for prudential considerations.

II) *One-time submission of the information that the landlord uses to qualify tenants* (income, credit score, and so on). It is not clear what is actually predictive of the risk of nonpayment, how much of that information is accurate, and which variables are likely discriminatory.[14] As Urban Institute notes, "Making selection criteria public provides clarity to applicants; allows landlords to clearly state reasons for rejections, minimizing future risks of fair housing concerns; and improves workflow by allowing for faster and better-documented decisions by those in the

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[13] See https://www.urban.org/sites/default/files/2023-11/Ensuring%20Tenant%20Stability%20in%20Federally%20Backed%20Rental%20Properties.pdf p3-4 for a more complete list of variables to collect on expanded rent rolls.

[14] See, e.g., https://files.consumerfinance.gov/f/documents/cfpb_tenant-background-checks-market_report_2022-11.pdf.

organization."[15] The landlord should update its submission whenever there are material changes. And, at the very least, each landlord should follow guidance from the FTC and the CFPB on the topic.[16]

III) *One-time submission of the ultimate ownership shares of the multifamily borrower* (if an LLC or a similar entity) by either individuals, publicly-traded corporations, larger privately-held firms or real estate investment trusts. The borrower has to submit any material changes in ownership structure if those occur. This data collection could connect one-building LLCs with the ultimate owners, and help monitor better for systemic offenders and for ownership concentration for prudential purposes.

Details: Manufactured Housing (MH)

Investors are able to purchase MHCs using Enterprise multifamily loans, often pricing out community ownership models and often vastly increasing land rents soon after purchasing, knowing that it is typically cost-prohibitive for tenants to move their manufactured homes elsewhere. Thus, in addition to also often being lower income and often rural, MHC tenants who own their homes require even more protections as they are subject to this lock-in.

Requiring long-term leases

MHC owners should be required to offer an option of a long-term pad lease (ten years), limiting the maximum lease increases. The Enterprises could require MHC owners to offer the option of a pre-specified schedule of rent increases over the length of the contract, with each annual increase no more than CPI inflation of the previous year plus 5% (consistent with a recent California law[17]), or potentially a somewhat higher threshold. Notably, HUD's Title I already has a three-year requirement, so it is not clear why the FHFA should not go beyond that given its explicit DTS mandate from Congress.

The Enterprises already require renewable leases in their current pad lease protections. Renewable lease requirement is meaningless if the landlord can offer a renewal at three times the previous price. An alternative option to a longer-term contract option is simply rent control, potentially similarly tied to previous year's inflation. MHCs are a unique case where some version of rent control might be economically helpful due to the asset lock-in of the virtually unmovable manufactured house owned by the pad tenant.[18]

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[15] See https://www.urban.org/sites/default/files/2023-11/Ensuring%20Tenant%20Stability%20in%20Federally%20Backed%20Rental%20Properties.pdf, p4.

[16] See https://consumer.ftc.gov/articles/tenant-background-checks-and-your-rights and https://www.consumerfinance.gov/rules-policy/tenant-background-checks.

[17] See https://oag.ca.gov/consumers/general/landlord-tenant-issues#limits.

[18] In general, we can't rent control our way out of a housing supply crisis. Binding rent control could lead to the higher-income tenants benefiting (subsidized by the taxpayers), misplaced incentives on maintenance and evictions, waste of resources by potential tenants trying to secure an apartment and stay there for decades, and an eventual decline in the Enterprise multifamily volume and lower housing supply in general.

For example, the FHFA could require the Enterprises to insert another pad protection (in addition to the current 8), along the lines of: *9) MH Home Owner is entitled to choose a ten-year lease term with the following conditions. The rent for the first year cannot exceed the rent for a one-year renewable lease. Any subsequent annual rent increases cannot surpass 10%. No additional fees can be charged for selecting the longer lease term. MH Home Owner has the option to terminate the lease without penalty after the first year, provided a 60-day notice to the landlord (or fewer if agreed upon) is given. This lease term is renewable unless there is good cause for non-renewal.*

Requiring MHCs to pay for moving costs when the MH owner was effectively forced to move
Even with a long-term lease, the MHC investors could take advantage of MH homeowners by either underinvesting in maintenance, evicting under false pretenses, or raising rents astronomically at the ten-year mark. The concern, again, is the lock-in of homeowner residents, as moving an MH costs potentially as much as $9,000 on average, with various sources citing a very wide range between as little as $3,000 to as much as $15,000.

A pad protection that could lower this incentive would require the MHC to pay its resident at least some of the move-out cost, say, $5,000, if the resident is effectively forced to move. This could be due to rents rising dramatically at the renewal (relative to MHCs nearby), it could be due to under investment in maintenance during the contract, or it could be due to the MHC pushing out residents because, for example, the owners are preparing to sell the community.

Naturally, such a requirement would raise pad leases overall, as the MHC owners would want to recoup all of that money throughout the lease. But such a requirement would also ensure that the MH owner is not stuck and that the MHCs' incentives are much more aligned with those of their residents – the MHCs would also want their residents to stay for as long as possible, all else equal. And, in the worst case scenario, MHCs would have an incentive to offer at least some compensation for MH owners to effectively sell the home to the MHC.

The pad protection could be phrased as follows: *10) MH Home Owner is entitled to receive $5,000 upon moving out of the MH Community (or have that applied to any back-owed rent, not including fees), unless any of the following exceptions apply: the MH Home Owner is moving before the end of the contract and the Community had not received any complaints about habitability from residents within the last three months, the MH Home Owner is leaving their MH in the community, or the MH Home Owner agrees to the MHC relocating the MH instead.*

Setting a goal of 10,000 MH home-only ("chattel") mortgages in 2027 per Enterprise
Currently, the Enterprises clearly find multifamily MHC mortgages to investors to be a profitable investment; yet the Enterprises guarantee effectively zero mortgage loans to the residents of these communities. However, if MHC investor loans are only a profitable investment because MHCs can exploit their residents who own homes, then the investors should not be receiving government backing. The Enterprises should not simultaneously believe that they could be backing MHC investors, yet the residents are far too volatile for a GSE single-family loan (at

least partially due to the possibility of unaffordable lease pad increases or other ways of how landlords could take advantage of locked-in tenants).

The two pad protections proposed above give the Enterprises an even wider opening than they had before to serve the MH home-only mortgage market effectively. The home-only mortgage loans for MHC residents could be conditioned on the ten-year leases and the $5,000 move-out payments. Mortgages for MH owners who live on their relatives' land (also a relatively common scenario) could be conditioned upon similar considerations: for example, the land owner could guarantee to the lender that they will not increase the rent by more than 10% annually over the next ten years (or keep the MH on their property rent-free), and that they guarantee a $5,000 payment to the MH owner on their property if the land gets sold within the next ten years.

The ten-year protection cycle would dramatically undercut the main concern for originating home-only MH loans – that the resident is also responsible for a large expense they don't control (the pad lease). Requiring ten-year leases or guarantees could thus allow much safer underwriting and lower interest rates.

According to the CFPB's analysis of HMDA data, in 2019 MH home-only loans had a 3.6 percentage points higher interest rate spread than site-built mortgages, typically had 23-year terms, and a median loan amount of $60,000.[19] There is also research suggesting that, all else equal, 20-year mortgage loans could have considerably lower interest rates than 30-year loans.[20]

A 10.6% 23-year term on an $80,000 loan has monthly payments of $775.[21] However, if the rate can be brought down to 8.5% – still much higher than even a 30-year stick-built rate – the monthly payment on an $80,000 loan with 8.5% interest on a 15-year loan is $787.

In other words, standardizing home-only mortgages, and taking advantage of the ten-year lease guarantees could ensure that borrowers would be able to pay off the vast majority of the loan during these ten years. The Enterprises could go further on both dimensions: for example, require 12-year protections and bring down the rate a bit more, so that they could match the mortgage length to the pad-lease contract length.[22] While the MH itself will depreciate over time, it depreciates relatively slowly[23] and at this point we are not far from many of the car loans that consumers get with much steeper appreciation.

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[19] See https://files.consumerfinance.gov/f/documents/cfpb_manufactured-housing-finance-new-insights-hmda_report_2021-05.pdf, pp 24-26.
[20] See, e.g., https://www.aei.org/articles/why-the-20-year-mortgage-is-the-answer-to-housing-finance-mess/.
[21] Assuming a typical 30-year stick-built mortgage rate of 7%, and considerable inflation since 2019.
[22] A 12-year 7% loan would have monthly payments of $823 – slightly higher than the 23-year loan at the current rates, but cutting the time to pay it off in half, and still maintaining a considerable margin over stick-built mortgages (since the 12-year rate on home-only mortgages is compared to the same rate on a 30-year stick-built mortgage).
[23] See, e.g., https://www.hud.gov/sites/documents/APPRECIATION.PDF. See also https://homenation.com/blog/how-long-do-mobile-homes-last suggesting a 30-50 year lifespan.

In addition to better aligning the mortgage term to the least term, the Enterprises can do much more with cashflow and residual income underwriting in this space.[24] MH chattel loan borrowers have lower credit scores, and potential borrowers could benefit from more reliance on on-time rental payments, residual income, and checking account inflows and outflows. Anecdotally, some of the larger lenders not securitizing their MH loans already work with versions of residual income for underwriting. The Enterprises can also experiment with using newer statistical techniques to ascertain whether some problematic credit bureau variables are indeed necessary for accuracy or could relatively easily be replaced since they largely carry the same statistical signal already embedded in other variables. For example, debt collection (including but not limited to medical) is haphazardly reported and its statistical signal might be largely contained in the fact that a consumer defaulted on a debt (prior to that debt being reported for debt collection). While the Enterprises started to count on-time rent payments, it is clear that there is a lot of space to do much more with cashflow and residual income variables.

According to the CFPB, there were 48,000 home-only originations in 2019. If the Enterprises approach anything close to their market share in the rest of the single-family market, the Enterprises could easily originate 20,000 of these between them. Thus, a goal of 10,000 home-only originations per Enterprise in the year of 2027 should be achievable. And that's even without considering how much the market might be expanded if the Enterprises would pass the pad protections described above and would bring the rates down.

Details: Rural housing

Set goals for each of the Enterprises to originate at least 35,000 purchase first-lien mortgages for homes valued below $150,000 to low to moderate income rural households in 2027

Set goals for the Enterprises to evaluate and publicly release a report in 2025 Q1 regarding which components of the mortgage origination costs per loan are due to government requirements, and how the current dispersion in origination costs persists

Home values are lower in rural areas, and small-dollar mortgages had been an issue nationally for years.[25] This problem should be solved nationally, and rural housing is a good place to start. The exact numeric goal could be in a wide range, but for example Fannie Mae noted that even in 2023 it originated over 800,000 single-family purchases, with over a third going to lower and middle-income borrowers.[26] Using the Enterprises' estimate that the rural market has about 18% of the population (and, if anything, might be even more heavily skewed towards lower and middle-income), that is potentially around 50,000 rural lower and middle-income purchase loans per Enterprise, even in historically slow years like 2023. The Enterprises and the FHFA can use

[24] See, e.g., https://www.consumerfinance.gov/about-us/blog/credit-scores-only-tells-part-of-the-story-cashflow-data/.

[25] See, e.g., https://www.urban.org/sites/default/files/publication/98261/small_dollar_mortgages_for_single_family_residential_properties_2.pdf and https://www.urban.org/research/publication/improving-availability-small-mortgage-loans.

[26] See, e.g., https://www.fanniemae.com/media/51941/display/.

2023 HMDA data to see what percentage of these loans are under $150,000, but a 35,000 per Enterprise target in 2027 seems realistic between likely a stronger market than 2023, market expansion, and ideally progress on manufactured housing loans.

Small-dollar mortgage can be defined in multiple ways. For concreteness, I define it as homes valued below $150,000 (which, for example, would include a $120,000 loan with a 20% downpayment). This is not too far from an Urban Institute report defining the $70,000 threshold using 2015 data, and adjusting for home price appreciation since then.[27] Small-dollar mortgages, however defined, are also often manufactured homes. Thus, rural home-only manufactured home loans could serve two requirements at once for the Enterprises.

The problem has potentially multiple potential issues behind it. The most fundamental reason is that many mortgage costs are fixed, or at least don't scale linearly with the loan amount. However, many mortgage revenues do scale linearly with the loan amount. This is true both for origination and for servicing costs. Accordingly, a $100,000 loan might still cost $7,000 to originate (or more),[28] $600-900 for an appraisal, and hundreds of dollars for other fees like title insurance. A total cost approaching $10,000 is hard to amortize over a $100,000 loan while keeping interest rates and fees low.

While many commenters note the CFPB's rules potential effect on smaller-dollar loans, it's not obvious what exactly this effect is. The ATR-QM rule does not limit a lender's markup – it simply limits the amount of points and fees that the lender can charge while still qualifying for QM status. In particular, the lender can raise the interest rate by as much as 150 basis points over APOR even if the lender wants to remain in QM safe harbor. The LO Comp rule does not prohibit lenders from offering a flat dollar compensation regardless of the loan amount to their LOs, or even a flat dollar compensation up to some loan amount, and then switching to a compensation as x bps of the loan amount – for example, having compensation of the higher between 100bps of the loan amount or $1,000.

Enterprises should evaluate the costs and benefits added by various requirements as they apply to smaller rural loans, improve the Enterprises' processes accordingly, and suggest potential actions to the CFPB, FHA, VA, and Ginnie Mae. However, the Enterprises should be nuanced in their analysis, as some requirements are effectively imposed by multiple parties – for example, income verification is arguably required both by the Enterprises' guidelines and CFPB's ATR-QM.

A potentially more nuanced question that the Enterprises should answer is why, even according to Freddie Mac's own 2024 analysis, there is such a dispersion in origination costs across its lenders – $11,600 on average per loan, yet with some lenders being able to spend only

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27 https://www.urban.org/sites/default/files/publication/98261/small_dollar_mortgages_for_single_family_residential_properties_2.pdf.

28 See, e.g., https://www.mba.org/docs/default-source/research-and-forecasts/research-white-papers/impact-of-loan-size-on-profits-9-7-2023.pdf for 2022 with extrapolations according to the text.

$6,900?[29] Which practices should be adopted by all lenders, potentially tied to technology as the Freddie Mac reports suggest?[30] And if the difference is so high across lenders, with all Freddie Mac lenders presumably following all necessary regulations, how much extra savings in origination costs can we get even without changing regulations? Such a cost dispersion also points to the lack of consumer shopping in the mortgage market in general, and the lack of Enterprise or the FHFA action to help borrowers.[31]

Set goals for the Enterprises to evaluate and publicly release a report in 2025 Q1 regarding the relative accuracy of the Enterprises' AVMs and human appraisers in rural areas, and whether the need for human appraisers can be drastically reduced without taking on excessive risk
Appraisals are one of the highest origination costs and are notoriously difficult in rural areas, both for the lack of comparable properties and for the long distances that the appraisers have to drive in order to see both the house being appraised and any comparables. Following the FHFA staff research from 2018, both human appraisers and AVMs have difficulty appraising rural properties accurately. However, AVMs had only gotten better since then. The Enterprises should publicly release updated AVM performance in rural areas, and decide when an effectively-free AVM can substitute for a $700 or so human appraisal (that is likely to be very inaccurate as well) especially for a smaller transaction.[32]

Set goals for the Enterprises to develop more automated options for interest rate drops for smaller loan amounts in response to market rate movements, as smaller-dollar refinances are both in short supply and are often cost-prohibitive to the borrower
Research shows that refinances opportunities are very limited for smaller-dollar loans as well.[33] The fact is sufficiently well-known that smaller mortgages are often packaged into spec pools for investors, priced at a premium since these spec pools are less likely to prepay (refinance).[34] The lack of both smaller dollar lending and refinances are both associated with hurting primarily lower-income, Black, and Hispanic borrowers.[35]

Since smaller-dollar loans are often in spec pools already, the Enterprises can come up with a solution to ensure that these borrowers can also get benefits of lower market rates, whenever the interest rates fall. For example, the Enterprises can voluntarily lower interest rates for rural borrowers with balances under $150,000 when an appropriate benchmark drops (for example,

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[29] See, e.g., https://sf.freddiemac.com/docs/pdf/cost-to-originate-full-study-2024.pdf.
[30] See also https://sf.freddiemac.com/docs/pdf/fact-sheet/mortgage-cycle-time-benchmark-study.pdf.
[31] See, e.g., https://www.consumerfinance.gov/about-us/blog/mortgage-data-shows-borrowers-could-save-100-month-choosing-cheaper-lenders/ and https://www.urban.org/urban-wire/shopping-and-negotiating-mortgage-interest-rates-could-save-borrowers-more-100-month.
[32] See, e.g., https://www.urban.org/research/publication/reengineering-appraisal-process.
[33] See, e.g., https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4163151.
[34] See, e.g., https://www.sciencedirect.com/science/article/abs/pii/S0304405X22002458.
[35] See, e.g, NCLC's comments to the FHA's 2022 RFI (https://www.federalregister.gov/documents/2022/10/04/2022-21047/request-for-information-regarding-small-mortgage-lending and, in particular, https://www.nclc.org/wp-content/uploads/2022/12/signon-comment-small-dollar-2022.pdf) on smaller dollar lending, and https://www.urban.org/research/publication/streamlining-refinances-expand-availability.

Treasury 10-year rates). That would save the mortgage system refinance transaction costs, while making the borrowers more resilient through lower monthly mortgage payments. The Enterprises can buy these pools out (and engage in credit risk transfers so that the taxpayers are protected), or the Enterprises can repackage these loans in a different security, with payouts resembling ratchet mortgages.[36]

Accordingly, the goal can be eliminating the gap between how few lower and middle-income rural borrowers will have their interest rates reduced when the market rates eventually drop, relative to the Enterprises' borrowers nationwide. These rate reductions can either come through the Enterprises somehow making refinances easier for these borrowers or, much more likely, through a more automated system.

Set goals for the Enterprises to help local jurisdictions to digitize various property records, to record liens, title changes, evictions, and foreclosures more accurately and in a more timely manner – each Enterprise should ramp up to get at least 100 counties digitized in 2027

As identified by the Enterprises, homeowners in rural counties and jurisdictions might suffer more frequently from title problems, often stemming from lack of recording, not digitized systems, and so on. The Enterprises should be in the prime position to standardize such recordings, and help everyone – rural borrowers, local jurisdictions, new entrants to the title search and insurance space (including Fannie Mae's own pilot), and enable other crucial data reporting at the county level (for example, foreclosures and evictions).

One of the Enterprises' core strengths is helping to bring about standardization in the mortgage market where needed. Local records in rural jurisdictions is undoubtedly one of these areas.

[36] See, e.g., https://www.atlantafed.org/economy-matters/economic-research/2023/02/03/atlanta-fed-research-examines-racial-disparities-in-mortgage-refinancing and https://www.urban.org/research/publication/streamlining-refinances-expand-availability.