PAUL MANCHESTER, Ph.D.

Paulbmanchester@hotmail.com

File Name: FHFA comment 1024 FINAL—due by 10/28/24

Regulatory information number: **RIN 2590-AB34**

**Low-Income Areas Home Purchase Subgoal.** This subgoal covers single-family home purchase mortgages for certain borrowers in designated low-income census tracts. The subgoal was 4 percent for 2022-2023 and FHFA proposes to keep it at this level for 2024-27. However, several considerations indicate that the subgoal should be substantially higher.

The Enterprises’ charter acts state that two of the important factors in setting a goal/subgoal are past Enterprise performance on the subgoal and projected market performance on the subgoal. Data in Table 5 show that average performance over 2020-23 was 9.1 percent for Fannie Mae and 8.8 percent for Freddie Mac, both substantially above 4 percent. Average projected market performance for the 2024-27 period is 10.0 percent, and 4 percent is well below the lower limits of the confidence intervals for market performance over this period. Thus, the proposed housing goal is inconsistent with two of the statutory factors, and the goal should be increased. A higher subgoal would be more consistent with past performance, projected market performance, and the statutory factors, and would provide more incentive for a strong Enterprise role in this market. \*

**Housing Plan.** Under current procedures an Enterprise fails a goal if its performance falls short of both the benchmark level and market performance. In that case the Director may, but need not, require the Enterprise to submit a housing plan. This simple procedure would be replaced with a more complex and possibly confusing approach in the proposed rule.

Instead of two categories (pass/fail), there would now be three categories: (1) pass; (2) fail; and (3) fail but performance equals or exceeds adjusted market performance (“AMP”), where is AMP is market performance minus the “enforcement factor” in the proposed rule. And there is no explanation as to how the enforcement factors were derived.

Applying Occam’s razor, that a simple but satisfactory approach is to be preferred to a more complex approach, I recommend that FHFA continue to use the current approach in this matter.

\*For further discussion of these matters, see Paul Manchester, “FHFA’s proposed affordable housing goal is too low,” *National Mortgage News*, September 17, 2021.