MBA®
MORTGAGE BANKERS ASSOCIATION

October 28, 2024

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: 2025-2027 Enterprise Housing Goals Proposed Rule

Dear Director Thompson,

The Mortgage Bankers Association[1] (MBA) thanks the Federal Housing Finance Agency (FHFA) for the opportunity to comment on the proposed rule outlining the 2025 - 2027 housing goals for Fannie Mae and Freddie Mac (the Enterprises). The goals specify benchmark percentages of the Enterprises' purchases of single-family mortgages serving low- and very-low-income borrowers and other underserved populations and help drive the Enterprises' efforts to achieve their mission of supporting liquidity for affordable homeownership.

The 2025 - 2027 housing goals are comprised of single-family and multifamily goals consistent with the Federal Housing Enterprises Financial Safety and Soundness Act (the Safety and Soundness Act)[2]. MBA was pleased that the proposal for the next three years included proposed single-family benchmarks that reflect the ongoing challenges seen in the housing market. Also promising is the inclusion of a new process for evaluating compliance with the housing goals that considers the uncertainty and time lags associated with forecasting the market years in advance and retroactively determining actual market levels. While MBA welcomes all attempts to reduce market friction and make the Enterprise Housing Goals more achievable and effective, we believe there are foundational issues and other areas for improvement that warrant consideration.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.
2 12 U.S.C. 4561(a)

Single-Family Housing Goals

The proposed housing goals appear to be appropriate based on current methodologies and reflect lessons learned from previous goals. The prior goals for 2022 - 2024 were "stretch goals" which ultimately exceeded the level of goals-eligible loans being produced in the market. This led to actions taken by the Enterprises which created unintended consequences for lenders, borrowers, and the Enterprises. The proposed 2025 – 2027 benchmarks for the low-income purchase (LIP) goal, very low-income purchase (VLIP) goal, and Single-Family Minority Census Tracts subgoal are set just below current model forecasts. The Single-Family Low-Income Census Tracts subgoal benchmark is set well below current forecast and recent performance to continue to address concerns about gentrification and the displacement of low-income families in these areas.

The Single-Family Low-Income Refinance Goal remains unchanged from the prior goals and FHFA recognizes that their current model cannot accurately forecast low-income refinance levels in the market for 2025-2027. The unpredictability of future interest rates, and the current number of borrowers with significantly lower interest rates due to recent historical lows, both have a significant impact on refinance originations. Further, the percentage of low-income refinances relative to the overall refinance market can shift greatly depending on the rate environment and is inversely proportional to the level of refinances in the overall market. A substantial drop in interest rates that spurs a significant amount of refinance activity could make reaching the current low-income refinance goal percentage difficult, even if there is an increase in the number of those loans.

While we understand the Safety and Soundness Act requires goals to be set as percentages, MBA believes FHFA should consider establishing secondary assessment factors based on the number of loans purchased when unique market factors drive large or unanticipated increases in the denominator. As noted in the proposal, there is currently no data series available that can be used in a forecast model for these loans. However, it should be possible to historically view the number of low-income refinances done year over year. A goal for these loans that targets a range of number of units rather than a percentage may be more accurate, more attainable, and would not be subject to drastic shifts due to interest rate changes.

Data Used for Goals Calculation

We continue to receive feedback regarding the lag of data inputs used to calculate the housing goals. While FHFA does consider a variety of factors when setting benchmark levels for 2025-2027, their forecast models produce values using historical HMDA data through 2022. While FHFA notes that these models will be updated with 2023 data prior to the release of the final rule, the fact remains that the current method for benchmark calculation may not reflect key market data. The number of loans originated in a given year and reported in HMDA is very sensitive to a variety of market factors and lenders must consistently adjust to these changes. Striving to meet a static goal partially determined by a model using data that is likely at a minimum a year old can be challenging given interest rate shifts, changes in origination and refinance volumes, and housing supply challenges.

MBA appreciates that under the proposed rule, FHFA will continue to monitor the reporting methodology and reported data to consider potential adjustments to the way the overall market is measured. Additionally, per the Safety and Soundness Act and the Enterprise housing goals rule, FHFA may take necessary steps after publication of the final rule should new information indicate that any of the housing goals are not feasible for various reasons. FHFA is permitted to reduce the benchmark levels in response to an Enterprise petition for reduction for any of the housing goals in a particular year should FHFA determine that market and economic conditions or the financial condition of the Enterprise requires a reduction or efforts to meet a goal or subgoal would result in the constraint of liquidity, over-investment in certain market segments, or other consequences.

These flexibilities, while helpful, are still a retroactive solution to managing the housing goals. When these goals are misaligned with market conditions, as has happened in recent years, the Enterprises force those goals down on individual lenders in ways that significantly distort the market – an issue that MBA has frequently raised in meetings with the Enterprises and FHFA. MBA encourages FHFA to continue to seek ways to improve calculation models and data sources to better reflect current market performance and make benchmark goals as relevant as possible. We also encourage FHFA to proactively engage with the Enterprises to make any necessary adjustments to goals as quickly as possible to avoid market disruption and negative impacts to lenders and borrowers. Finally, we urge FHFA to explore regular updates on the Enterprises' progress toward the housing goals as this would enable the industry to proactively gauge the Enterprises future appetite for goals eligible loans.

Enforcement Factors

Currently if an Enterprises does not meet a housing goal that was deemed feasible, FHFA can require the Enterprise to submit a housing plan outlining specific actions they plan to take to improve their performance. In response to unexpected market pressures and continued uncertainty around housing supply and future interest rates, FHFA has proposed new "Enforcement Factors" that would help determine the course of action should certain goals be missed. Elevated home prices, high interest rates, and housing supply constraints dramatically reduced loan production over the last two years resulting in a very limited supply of goals eligible loans for which the Enterprises had to compete.

To remedy this going forward, FHFA is proposing Enforcement Factors that would take effect if a proposed benchmark is higher than the market level for a certain goal. In those cases, an Enterprise will not have to submit a housing plan if their performance meets or exceeds the market level minus a buffer of 1.3% for LIP and low-income refinance loans and 0.5% for VLIP loans. To avoid reliance on these Enforcement Factors, if an Enterprise does not meet one of the applicable goals in both 2025 and 2026, the Enforcement Factor would not apply to that goal in 2027.

The proposed Enforcement Factors seem reasonable and could better enable the Enterprises to work within market levels should they be lower than the published housing goals. Because of the limitation on consecutive years of qualification for the enforcement factors, it will be critical that FHFA make necessary adjustments to published housing goals should market conditions cause significant changes in the availability of goals eligible loans. MBA believes the proposed Enforcement Factors in combination with the other recommendations made could ease market distorting pressures on both the Enterprises and lenders and allow for smooth market functioning while supporting liquidity for underserved borrowers. We encourage FHFA to work with the Enterprises to ensure the proposed buffers are adequate and allow them to be reevaluated periodically.

<u>Limited Goals Eligible Loan Population</u>

Affordable lending is an industry wide effort that cannot be solved with a silver bullet. As a result, we see requirements related to affordability and underserved borrowers in several regulatory frameworks across government agencies or other actors. While well intended, this has created a scenario in which there is extreme competition for LIP and VLIP loans. MBA recommends better coordination and alignment between entities that have requirements for these loans. This could minimize the “tug of war” effect which can cause market disruption, mispricing of underlying risks, and potentially higher costs for nongoals loans – i.e., cross-subsidization beyond the levels intended in the Enterprises’ pricing framework. MBA has recently called for the establishment of a national director to oversee housing policies and address existing “regulatory knots.” Someone in this role would have a deep knowledge of existing laws and regulations and could coordinate current “goals” programs to create a system of affordable housing objectives that works across agencies, makes a positive impact on underserved borrowers, and minimizes market disruption.

MBA members also support efforts to expand the population of goals eligible loans through new underwriting approaches using rental income and residual income analysis. Affordable lending has been a challenge, especially given the recent interest rate environment and housing supply shortage. Even during high volumes, there is a limited number of these loans that can be produced each year. While some progress has been made though the Equitable Housing Finance Plans, Special Purpose Credit Programs, and Down Payment Assistance (DPA) Programs, we believe more can be done to increase lending in this space. An enhanced focus on expanding the population of these loans in a sustainable manner would help satisfy the demand of both Enterprises as well as other competing agencies and initiatives. We support the Enterprises taking a leadership role in these initiatives.

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MBA appreciates FHFA’s consideration of our comments regarding the 2025-2027 Enterprise housing goals and the broader objective of promoting market liquidity for affordable housing. The Housing Goals are an important mechanism by which the Enterprises can support low- and moderate-income borrowers. However, as seen in recent years, if these goals are not appropriately calibrated or adjusted during the goals period it can have serious adverse effects. MBA believes the recommendations provided can help refine the existing framework and in turn ensure that the goals do not detract from supporting critical mission lending. We look forward to our ongoing efforts and collaboration with FHFA and the Enterprises on these important matters.

Sincerely,

Pete Mills
Senior Vice President
Residential Policy and Strategic Industry Engagement
Mortgage Bankers Association