Fannie Mae®

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October 25, 2024

Clinton Jones, Esq.
General Counsel
Attention: Comments/RIN 2590-AB34
Federal Housing Finance Agency
400 Seventh Street, S.W.
Washington, DC 20219

Re: Notice of Proposed Rule and Request for Public Comment concerning the 2025-2027 Enterprise Housing Goals, RIN 2590-AB34

Dear Mr. Jones:

Fannie Mae appreciates the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") proposed rule, "2025-2027 Enterprise Housing Goals" (the "Proposed Rule").[1] The Proposed Rule would revise the current housing goal requirements for Fannie Mae and Freddie Mac (each an "Enterprise", and collectively the "Enterprises") codified at 12 C.F.R. Part 1282 (the "Current Rule").

Fannie Mae both shares and strongly supports FHFA's desire to responsibly promote equitable access to affordable housing that reaches low- and moderate-income families, minority communities, and other underserved populations.[2] We look forward to working with FHFA as we undertake efforts to attain our housing goals as described in the Proposed Rule.

We support the Proposed Rule, although we have noted some observations and cautionary comments in this letter. Section I contains Fannie Mae's views on the new "Enforcement Factors" in the Proposed Rule. Sections II and III address the proposed benchmark levels for single-family and multifamily. Section IV suggests a minor clarification to one of FHFA's proposed technical changes. Finally, Attachment A provides Fannie Mae's comments on the modeling and data utilized by FHFA in setting the proposed single-family benchmarks, and Attachment B discusses macroeconomic factors and emerging local regulatory requirements that may impact rental housing affordability over the next three years.

I. The Proposed Enforcement Factors Appropriately Address the Continuing Uncertainty in the Mortgage Market

Under 12 C.F.R. § 1282.12(a), an Enterprise complies with a housing goal if it meets or exceeds either the share of the market that qualifies for the goal or the FHFA benchmark level for the goal. Fannie Mae uses the benchmarks as the month-to-month metric for measuring and managing its housing goals performance.

[1] 89 Fed. Reg. 70127 (Aug. 29, 2024).

[2] *See* FHFA News Release, "FHFA Proposes 2024-2027 Housing Goals for Fannie Mae and Freddie Mac," Aug. 22, 2024.

Over the course of the Current Rule's three-year term, dramatic increases in mortgage interest rates, home prices, and inflation combined to create the most significant affordability challenges experienced by potential homeowners in decades.[3] These affordability constraints limited the number of buyers willing and able to make home purchases – especially borrowers in the lower ranges of the income spectrum – and significantly reduced the origination of single-family low-income purchase ("LIP") and very low-income purchase ("VLIP") mortgage loans in the primary market. Consequently, meeting the LIP and VLIP housing goals benchmarks under the Current Rule became unattainable. In the Proposed Rule, FHFA proposes "Enforcement Factors" when deciding the consequences of an Enterprise not meeting certain single-family housing goals.[4] FHFA cites as rationales for the proposed Enforcement Factors the Enterprises' struggles "to manage their acquisition mix" of LIP and VLIP loans to meet the benchmarks under the Current Rule, and the continuing uncertainty in the mortgage market.

While adding Enforcement Factors would not change the requirement that an Enterprise meet or surpass each housing goal's benchmark or market share level, the Enforcement Factors would help FHFA determine whether an Enterprise that fails to satisfy both metrics should be required to submit a housing plan.[5] As proposed, FHFA would use Enforcement Factors to exempt an Enterprise from submitting a housing plan for the failure to meet one or more of three single-family goals: LIP, VLIP, and low-income refinance ("LIR"). Specifically, FHFA would not require the Enterprise to submit a housing plan if its performance met or exceeded the market share measure minus the specified Enforcement Factor for the applicable goal: 1.3 percentage points for LIP and LIR, and 0.5 percentage points for VLIP.

Fannie Mae appreciates FHFA's proposal regarding Enforcement Factors. As discussed below, we believe the Enforcement Factors represent a thoughtful approach to appropriately take into account the difficulties an Enterprise may experience when managing to the anticipated market share rather than fixed benchmarks.

1. Managing to Market Share under the Current Rule Poses Challenges

Our efforts to meet LIP and VLIP housing goals during the three-year period covered by the Current Rule inform our support for the proposed Enforcement Factors. As FHFA notes,[6] it finalized the Current Rule in 2021 when prevailing interest rates were substantially lower than those from mid-2022 to today. For example, when FHFA published the proposed version of the Current Rule in late August 2021,[7] Freddie Mac's weekly mortgage interest rate survey[8] reported that the average 30-year fixed rate mortgage rate was 2.87%. By the time Fannie Mae submitted comments on the proposal in late October 2021 (the "2021

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[3] To put this in context, when factoring in the change in interest rates and home prices, Fannie Mae estimates that between 2021 and 2023, the number of low-income renters who could afford to purchase an entry level home in their community declined by 89%. The impact on very low-income borrowers was much worse, with those able to purchase an entry level home falling by 98%.

[4] 89 Fed. Reg. at 70130.

[5] Under 12 U.S.C. § 4566(c)(1), FHFA has discretionary authority to impose a housing plan as a remedial measure on an Enterprise that fails to meet a feasible housing goal.

[6] 89 Fed. Reg. at 70130.

[7] *See* 2022-2024 Enterprise Housing Goals, 86 Fed. Reg. 47398 (Aug. 25, 2021).

[8] Historical data can be accessed at https://www.freddiemac.com/pmms/pmms_archives.

Comment Letter"),[9] that average had increased to 3.14%. In the 2021 Comment Letter, we cautioned that our economic model suggested that the proposed LIP and VLIP benchmarks were not feasible for the 2022-2024 period. We noted that "there are many market factors and regulatory issues outside the Enterprises' control that pose risks to meeting these purchase benchmarks during the three-year term of the rule, which together serve to cast doubt on our annual prospects to achieve them."[10]

Major factors outside the Enterprises' control includes market interest rates. In fact, the interest rate environment shifted dramatically higher during 2022, which saw the 30-year average (according to Freddie Mac's survey) go from 3.22% the week of January 2, 2022, to 5.27% the week of May 2, 2022. By the end of 2022, Freddie Mac reported the average 30-year rate was 6.42%, nearly double from the start of the year. Consistent with concerns expressed in the 2021 Comment Letter over the higher benchmarks, in 2022, we missed the LIP and VLIP benchmarks by 0.6 percentage points and 0.1 percentage points, respectively.[11] However, buoyed by an influx of loans originated at the lower rates prevailing in late 2021 and the early months of 2022, Fannie Mae met its housing goals, as FHFA calculated that our performance exceeded the respective market shares for such loans in 2022.[12]

As it became clear early in 2023 that we would also be unlikely to meet that year's benchmarks, Fannie Mae focused its efforts on predicting, tracking, and exceeding the anticipated market share measures. This process, however, posed practical challenges because a significant portion of the residential mortgage market is opaque in real-time, with reliable retrospective data only becoming available in the following year, when Home Mortgage Disclosure Act ("HMDA") data are published. In addition, it is difficult to predict what share of LIP and VLIP loans the Enterprises will have in a given year relative to other market participants, including banks and credit unions that elect not to sell their loans in the secondary market.[13] Accordingly, we did not simply try to estimate and track the overall market for LIP and VLIP; we also pursued strategies and tactics intended to expand our acquisition of goals-rich home purchase loans during 2023, while simultaneously being mindful not to reduce overall market liquidity.[14]

In 2023, Fannie Mae engaged in targeted efforts to acquire loans to borrowers with lower incomes, including direct engagement with lenders to expand the use of our affordable mortgage products. Our account teams actively worked lender-by-lender to establish expectations for lower-income loan deliveries based on a

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[9] Fannie Mae, Letter to FHFA re Notice of Proposed Rule and Request for Public Comment concerning the 2022-2024 Enterprise Housing Goals, RIN 2590-AB12, dated Oct. 25, 2021, available at https://www.fhfa.gov/sites/default/files/rulemaking_comments/Attachments/15862/Fannie%20Mae%20Housing%20Goals%20Comment%20Letter%2010%2025%202021_signed.pdf.

[10] *Id*. at 7.

[11] *See* 89 Fed. Reg. at 71035 (Table 1).

[12] FHFA, "Final Determination of Fannie Mae's 2022 Housing Goals Performance", dated Oct. 4, 2023, available at https://www.fhfa.gov/sites/default/files/2024-02/2022-Fannie-Mae-Final-Determination-Letter.pdf.

[13] Based on HMDA data, aggregated Enterprise market share of LIP loans over the six-year period between 2018 and 2023 were: 48% in 2018, 47% in 2019, 57% in 2020, 57% in 2021, 53% in 2022, and 51% in 2023. Aggregated Enterprise market share of VLIP loans over the same period were: 48% in 2018, 47% in 2019, 57% in 2020, 58% in 2021, 53% in 2022, and 49% in 2023.

[14] These efforts continued into 2024, as interest rates remained persistently high.

lender's footprint, origination profile and active pipeline in Desktop Underwriter®("DU®").[15] Their efforts included targeted education and training on leveraging DU to maximize use of HomeReady®,[16] positive rental payment history[17] and DU average credit scoring[18] for lower-income borrowers. We also partnered with individual lenders on the creation of targeted programs, including special purpose credit programs and down payment assistance programs. In all instances, we reminded lenders that delivery of loans to lower-income borrowers is a critical aspect of their overall relationship with Fannie Mae.

Despite these efforts, Fannie Mae did not meet the LIP and VLIP goals in 2023.[19] As Table 1 in the Proposed Rule shows, based on FHFA's preliminary determination of the market, Fannie Mae's self-reported 2023 LIP and VLIP performance was 26.1% and 6.0%, respectively, missing both the benchmarks (28% and 7%) and the market (26.3% and 6.5%).[20] Given the significantly lower volumes of LIP and VLIP loans produced in the primary market, the margins by which we missed the market share measures were slight, translating into several hundred loans per month for the entire year.

2. The Proposed Enforcement Factors Are Properly Calibrated

With Enforcement Factors effectively offering a "safe harbor" against imposition of a housing plan, we agree with FHFA that they will encourage the Enterprises to adopt more effective methods to predict market share. We believe that the use of Enforcement Factors will also offer some latitude in light of the inherent uncertainty of predicting market share without fulsome data. We have this caveat: Fannie Mae urges FHFA not to set the Enforcement Factors in the final rule at levels lower than those in the Proposed Rule. As proposed, the Enforcement Factors would likely not apply unless Enterprise performance translates to at least 92% to 95% of eventual share of housing goal loans in the market, which Fannie Mae considers to be a

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[15] DU is Fannie Mae's proprietary automated underwriting tool, available to all Fannie Mae lenders. It analyzes the information in the prospective loan casefile submitted by a lender to reach an overall credit risk assessment to determine eligibility of the loan for sale to Fannie Mae by the lender.

[16] HomeReady is Fannie Mae's offering for low-income borrowers. To help assure sustainability, for HomeReady purchase transactions, if all occupying borrowers are first-time homebuyers, then at least one borrower must complete a homeownership education course from a qualified provider, regardless of loan-to-value ratio. Fannie Mae's free HomeView® training can be used to satisfy the homeownership education requirements.

[17] Positive rent payment history is a feature that allows DU to use asset verification reports (i.e., bank statement data) to identify recurring rent payments to potentially enhance DU's credit assessment of prospective, first-time home buyers. For more information, *see* https://singlefamily.fanniemae.com/originating-underwriting/faqs-positive-rent-payment-history-desktop-underwriter.

[18] Effective September 2021, for loans with multiple borrowers, DU no longer uses the representative credit score — determined by identifying each borrower's applicable credit score and using the lowest score across borrowers — to confirm mortgage loans comply with its minimum 620 credit score requirement. For these loans, DU now uses an average of each borrower's median credit score — the "average median credit score." This change to use the average of borrowers' median credit scores allows more prospective borrowers to be considered by DU's risk assessment instead of deeming the loan ineligible solely because the lowest median credit score is below 620.

[19] 2024 performance will not be determined by FHFA until 2025.

[20] By letter of October 16, 2024, FHFA confirmed that we failed to meet the LIP and VLIP goals. FHFA also indicated that we are not required to submit a housing plan as a result of the two missed goals because FHFA determined those goals were not feasible for us to achieve for 2023.

demanding performance standard appropriate for the "safe harbor" benefit offered by FHFA. Any reduction in the amount of the Enforcement Factors would require Enterprise performance closer to 100% of market share to qualify, making Enforcement Factors of little practical benefit.[21]

II. Comments on Single-Family Benchmarks in the Proposed Rule

1. LIP and VLIP

In general, the Proposed Rule appropriately and pragmatically adjusts the Current Rule's benchmark levels. In particular, we welcome the LIP and VLIP benchmark reductions from their current historic highs.[22] The proposed LIP benchmark would still remain higher than the 24% level that prevailed for seven years from 2015 through 2021; however, based on our internal modeling forecast (*see* Attachment A), Fannie Mae believes the new 25% LIP benchmark for 2025-2027 represents a reasonable and fair objective to pursue, assuming no materially adverse changes in economic conditions.[23] The attached internal forecast also suggests that the proposed VLIP benchmark of 6% in each of next three years is a reasonable but more challenging objective, subject again to economic conditions.[24]

We anticipate complications for LIP and VLIP performance over the 2025-2027 period if the expected mortgage rate decline over the next few years does not effectively alleviate the supply shortage to provide enough affordable housing units to the market. In addition, as shown in Attachment A, as the housing supply shortage is likely to persist, home prices will likely stay elevated, making home ownership a continued challenge for LIP and VLIP borrowers. This uncertainty around supply constraint and affordability dynamics remains a major challenge in reaching the proposed LIP and VLIP annual benchmarks. With regard to VLIP, we remain especially mindful of persistent systemic concerns over the limited supply of affordably-priced homes and the disproportionate adverse impact of comparatively high interest rates on prospective buyers with incomes at or below 50% area median income. While our current forecast suggests

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[21] While Fannie Mae supports the introduction of Enforcement Factors, we offer one technical suggestion for FHFA's consideration. Under proposed § 1282.22(b)(1)(i), the Enforcement Factor for a goal will not apply unless the market share for that goal is lower than the benchmark. Although it is rare for the market share to be greater than the applicable benchmark when an Enterprise misses both metrics, it has occurred previously. For example, in 2010, Fannie Mae's LIP performance of 25.1% failed to meet the benchmark of 27% and the market share of 27.2%, and VLIP performance of 7.2% missed the benchmark of 8% and the market share of 8.1%. Under the Proposed Rule, if something similar should occur again, no Enforcement Factor would apply because the market share for LIP and VLIP exceeded the related benchmark; conversely, if each market share was even a *de minimis* amount below than the corresponding benchmark, a 1.3 percentage point Enforcement Factor would apply to LIP and a 0.5 percentage point Enforcement Factor would apply to LIP. But regardless of whether the market share for a goal is eventually determined to be lower or higher than the benchmark, the degree of uncertainty experienced by an Enterprise trying to predict the eventual market share during the year in question remains constant. Accordingly, we encourage FHFA not to include proposed § 1282.22(b)(1)(i) in the final rule.

[22] Since their introduction in 2010.

[23] Under FHFA's "protracted slump" scenario, featuring a recession, low consumer and business confidence, tight lending standards, and high interest rates, FHFA projects that the 2025 share of LIP loans relative to all owner-occupied conventional loans would slip to 21.5%, well below the proposed 25% benchmark. *See* Exhibit A-2 in https://www.fhfa.gov/sites/default/files/2024-09/Market-Estimates_2025-2027.pdf.

[24] FHFA's "protracted slump" scenario suggests VLIP market share in 2025 could drop to 5.1%. *See id.*

we may meet the challenging VLIP and LIP benchmarks in each of the next three years, we note that our internal forecast may change due to unexpected economic conditions and the increasingly wider confidence bands year over year.

2. Minority Census Tracts

The proposed benchmark for the minority census tracts home purchase subgoal (a component of the low-income areas housing goal, first established in the Current Rule) would move from 10% in the Current Rule to 12%. FHFA explains the change by noting "a pronounced increase in the market levels and both Enterprises' performance on this subgoal beginning in 2022."[25] FHFA further notes that new census tract boundaries based on the 2020 census took effect in 2022, adding that this might have contributed to the observed increases. FHFA indicates it will continue to analyze the issue and publish more information in the final rule.

While more information would be welcome, Fannie Mae has examined the census tract boundary changes in light of historical loan purchase patterns. Our internal forecast shows we have a reasonable opportunity to meet the new higher subgoal benchmark in the first two years ahead, but the novelty of this subgoal limits the accuracy of our assessment. Because this subgoal has only been in place for the past three years, we have had to apply retrospective analysis of loan purchases using the 2022 census tract boundaries in prior years to supplement our actual experience.

3. Low-Income Refinance

FHFA has proposed leaving unchanged the current 26% benchmark for LIR loans. Our 2021 Comment Letter stressed the relationship between LIR share and market interest rates, which is attributable to the greater sensitivity of higher-income households to refinance when interest rates decline. FHFA notes the inverse relationship in the Proposed Rule, [26] but explains that it is leaving the LIR benchmark unchanged because "FHFA's model cannot forecast low-income refinance levels in the market for 2025- 2027 with great confidence, due to the high degree of unpredictability of future interest rates and the strong sensitivity of refinance originations to interest rates."[27] However, Fannie Mae's internal market forecast expects that market LIR will decrease in 2025 from 2024, while the FHFA model does not (*see* Attachment A at page A-2). The difference reflects disparate views on the expected dynamics of future interest rates, with Fannie Mae anticipating lower rates. FHFA added that "after adoption of the final housing goals rule, [it will] adjust the benchmark level if necessary."[28] This is reassuring, but Fannie Mae urges FHFA to take into account an updated projection of interest rates for 2025 when it prepares the final rule, and to set the LIR benchmark consistently with that projection rather than continuing the current LIR benchmark by default. While our

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[25] 89 Fed. Reg. at 70137.

[26] *Id*. at 70139 ("annual performance in the overall market and by the Enterprises on low-income refinance mortgages tends to be inversely proportional to the volume of low-income refinance loans the market produces and the Enterprises purchase during a given year.").

[27] *Id*. Notwithstanding this, in Exhibit A-2 cited in footnote 23, *supra,* FHFA envisions 2025 LIR market share ranging between 42.9% in the most favorable economic scenario, to 28.4% in the "prolonged slump" scenario.

[28] *Id.*

attached internal forecast suggests we may be able to meet the proposed LIR benchmark in each of the next three years, the magnitude of the confidence bands, especially in later years, dampens our confidence.

III. Comments on Multifamily Aspects of the Proposed Rule

Fannie Mae is focused on supporting the preservation, rehabilitation, and creation of affordable rental housing. During the two-year period of the current rule on multifamily housing goals,[29] Fannie Mae has continued this support through the following programs, among others:

- **Support for publicly subsidized housing.** Fannie Mae's financing for Multifamily Affordable Housing ("MAH") provides affordable and flexible financing for rental properties with rent- or income-based restrictions from public entities, primarily where rents are affordable long-term to households living at or below 60% of area median income. Our financing for MAH loans totaled $6.6 billion in 2023.
- **Incentives for sponsor-elected affordability restrictions.** Fannie Mae's Sponsor-Initiated Affordability ("SIA") and Sponsor-Dedicated Workforce ("SDW") loan program initiatives provide better pricing and underwriting flexibility to incentivize the creation or preservation of affordable units. Borrowers who elect to restrict at least 20% of units for the life of the loan are incentivized with lower-cost financing and flexible terms. In 2023, SIA created or preserved restrictions on the rents and incomes of 2,110 rental units, and SDW created or preserved restrictions on the rents of 2,357 rental units.
- **Investments in affordable housing supply.** From 2018 through 2023, Fannie Mae has committed approximately $4.0 billion in net equity to federal low-income housing tax credit investments, supporting the creation or preservation of affordable rental units in 49 states, Guam, Puerto Rico, the U.S. Virgin Islands, and Washington, D.C.
- **Incentives to support housing choice voucher recipients.** In 2022, Fannie Mae launched the Expanded Housing Choice Initiative, a pilot program aiming to enlarge the pool of multifamily units that accept housing choice vouchers ("HCVs"). The pilot allows multifamily property owners in two states, North Carolina and Texas, where HCVs are not protected as a source of income, to access lower-priced financing terms as an incentive for their commitment to accept HCVs. Fannie Mae has recently expanded the incentive to include all markets without source of income protection.

Subject to economic conditions and local regulatory requirements impacting affordability (*see* Attachment B), Fannie Mae believes the proposed multifamily benchmarks reflect levels that are appropriately challenging, which we believe will allow us to continue to support affordable rental housing in a safe and sound manner.

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[29] 2023–2024 Multifamily Enterprise Housing Goals, 87 Fed. Reg. 78837 (Dec. 23, 2022). For 2023 and 2024, FHFA changed its methodology for measuring multifamily housing goals; rather than setting benchmarks based on the number of affordable units in properties financed by mortgages purchased by an Enterprise, FHFA used percentage benchmarks for each of the low-income goal, very low-income goal, and small low-income subgoal. *See id*. at 78838-78839.

1. Low-Income Goal

For the multifamily low-income ("LI") housing goal, FHFA proposes to maintain the current benchmark level of 61% for 2025-2027. This benchmark is consistent with Fannie Mae's prior performance in acquiring LI units and will ensure a similar level of participation by Fannie Mae in the LI mortgage market. The chart below shows Fannie Mae's actual performance in acquiring LI units from 2015-2023 as a percentage of goal-eligible units acquired in those years. Fannie Mae's acquisition of units meeting the LI goal each year from 2015 to 2023 ranged from 63.6% to 77.3%, with a median level of 67.1%. While we would have exceeded the proposed 61% goal in each of these years, the margins were narrow in some years and wider in others.

LI Goal	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Housing Goal-Eligible Units Acquired	468,798	552,785	630,868	628,230	596,137	637,696	557,152	542,347	415,513
LI Units Acquired	307,510	352,368	401,465	421,813	385,763	441,773	384,488	419,361	317,032
% Acquired	65.6%	63.7%	63.6%	67.1%	64.7%	69.3%	69.0%	77.3%	76.3%

2. Very Low-Income Goal

The proposed increase in the multifamily very low-income ("VLI") benchmark level from 12% to 14% for 2025-2027 will make the VLI goal more difficult to achieve. We believe, however, that this higher benchmark is a reasonable objective and will ensure that Fannie Mae maintains a high level of participation in the VLI mortgage market. The chart below shows Fannie Mae's actual performance in acquiring VLI units from 2015-2023 as a percentage of goal-eligible units acquired in those years. Fannie Mae's acquisition of units meeting the VLI subgoal each year from 2015 to 2023, expressed as a percentage of total goal-eligible units acquired, ranged from 11.9% in 2016 to 23.6% in 2022, with a median level of 14.7%. Although we would have exceeded the proposed goal in 2015 and from 2020 to 2023, we would not have met the proposed goal from 2016 to 2019.

VLI Goal	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Housing Goal-Eligible Units Acquired	468,798	552,785	630,868	628,230	596,137	637,696	557,152	542,347	415,513
VLI Units Acquired	69,078	65,910	82,764	80,891	79,649	95,416	83,459	127,905	77,509
VLI Units Acquired as a %	14.7%	11.9%	13.1%	12.9%	13.4%	15.0%	15.0%	23.6%	18.7%

3. Small Multifamily Low-Income Subgoal

FHFA proposes to set the benchmark level for the small multifamily low-income ("5-50") subgoal at 2% for 2025–2027, which is lower than the current benchmark level of 2.5%. FHFA explains that the lower benchmark will ensure that the Enterprises support the 5-50 market when needed without crowding out other sources of financing.[30] We agree and note that the new benchmark is consistent with Fannie Mae's historical performance and with the ongoing anticipated competition for those loans in the market. As the chart below shows, Fannie Mae's acquisition of units meeting the 5-50 subgoal each year from 2015 to 2023, expressed as a percentage of total goal-eligible units acquired, ranged from 1.4% to 4.0%, with a median

[30] 89 Fed Reg. at 70143.

level of 2.6%. Although we would have exceeded the proposed subgoal from 2019 to 2023, we would not have met the proposed subgoal between 2015 and 2018.

Small LI Subgoal	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Housing Goal-Eligible Units Acquired	468,798	552,785	630,868	628,230	596,137	637,696	557,152	542,347	415,513
Small LI Units Acquired	6,731	9,312	12,043	11,890	17,832	21,797	14,409	21,436	13,241
Small LI Units Acquired as a %	1.4%	1.7%	1.9%	1.9%	3.0%	3.4%	2.6%	4.0%	3.2%

In 2022, the percentage of units meeting the 5-50 subgoal in loans acquired by Fannie Mae increased to its highest level. The percentage was particularly high that year because FHFA set the subgoal at a fixed number of units considerably higher than previous years (17,000 units subgoal in 2022 compared to 10,000 units subgoal in 2017-2021). Fannie Mae also had a unique opportunity that year to acquire loans on a very large portfolio of 5-50 unit properties, which helped us meet that higher subgoal. In 2023 and the first half of 2024 we saw less competition from regional banks due to uncertainty in the market landscape, including the failure of several regional banks over the course of the year, which kept our subgoal achievement elevated despite low overall market volumes. As market conditions change, we expect other forms of financing to return. Given the often-robust competition in this segment of the market, we believe that setting this subgoal for the Enterprises at 2% of goal-eligible units will not result in a material change in the market support of this well-served segment.

IV. Technical Changes

Fannie Mae has reviewed the proposed technical changes in the Proposed Rule and has no objections. However, Fannie Mae has a suggested revision with regard to the new proposed 12 C.F.R. § 1282.22(g). While the stated intention of this new provision is to incorporate FHFA's statutory authority to enforce housing plans into the regulation, the proposed text omits certain limiting language in the statute.[31] We suggest that FHFA reaffirm this limitation on scope in the new regulation to avoid confusion between the Proposed Rule and the cited statutes.[32]

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[31] *See* 12 U.S.C. § 4566(c)(7) ("[s]olely with respect to the housing goals established under [12 U.S.C. §§ 4562(a) and 4563(a)(1)]); 12 U.S.C. § 4581(a)(3) (same); and 12 U.S.C. § 4585(a)(3) (same).

[32] Fannie Mae also notes apparent misalignment between the inclusion of subgoals as a basis for a housing plan in proposed § 1282.22(a) and the omission of subgoals as a basis for a housing plan in 12 U.S.C. § 4566(c)(1). If FHFA anticipates that it may impose a housing plan for failure to meet one of the single-family subgoals, then parity would support adding Enforcement Factors for these subgoals.

Fannie Mae appreciates FHFA's efforts to develop appropriate housing goals for 2025-2027 and to address the increased uncertainty around market conditions. If you have questions regarding the matters addressed in this letter, please feel free to contact the undersigned at 844-752-1234 (option 6).

Sincerely,

Terry Theologides
EVP and Chief Administrative Officer
202-752-0124

Attachments

Fannie Mae Economic and Strategic Research (ESR) Analysis for Housing Goals for 2025-2027 Rulemaking by FHFA

The Federal Housing Finance Agency (FHFA) proposes the 2025- 2027 benchmarks for the Low-Income Purchase (LIP) at 25% (down by 3% points from the current benchmark of 28%), Very Low-Income Purchase (VLIP) at 6% (down by 1% points from the current benchmark of 7%), Low-Income Refinance (LIR) at 26% (same as the current benchmark of 26%), Low-Income Census Tract (LICT) at 4% (same as the current benchmark of 4%), and Minority Census Tract (MCT) at 12% (up by 2% points from the current benchmark of 10%).[1] The proposed benchmarks are based on the updated 2024 FHFA model forecasts (Ubogu, 2024, referred to as "FHFA 2024" model, hereafter). An internally developed market forecast model by Fannie's ESR team (referred to as "ESR Market" model, hereafter) is used to provide some context around the FHFA benchmarks and predictions. The Fannie Housing Goal forecast model (referred to as "Fannie" model, hereafter) is also used to evaluate Fannie performance against the proposed annual benchmarks (Table 1 and Figure 1).[2]

Both the FHFA 2024 model and ESR Market model forecast LIP and VLIP shares, to be below the 2022-2024 annual benchmark levels of 28% and 7%, respectively, reflecting the persistent affordability challenge. However, both forecasts are above the proposed 2025-2027 annual benchmarks and are expected to show positive growth in certain periods, as affordability conditions are expected to improve. The proposed refinance and area annual benchmarks are also supported by the model forecast. However, the comparison between the FHFA 2024 model and other models reveal certain challenges. On the purchase side, the major risk lies in the possibility that affordability condition will improve slower than some forecasts suggest, or the expected interest rate drop will not alleviate the supply shortage effectively. On the other hand, wealthy borrowers usually respond faster to lower interest rates, which will dilute the share of low-income borrowers and pose a challenge to meeting the LIR annual benchmark. Furthermore, the increase in the proposed annual MCT benchmark is very close to the highest performance level observed in history for this goal, and there is no strong economic story

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[1] FHFA also introduced newly defined enforcement factors in this year's proposal to account for uncertainty in the forecast and timing lags in determining market level actuals. If GSE's performance falls below a benchmark but is above the level adjusted by the enforcement factors, FHFA will not require a housing plan. Currently, the enforcement factors are defined for purchase and refinance goals as 1.3% for Low-Income Purchase, 0.5% for Very Low-Income Purchase and 1% for Low-Income Refinance. Nevertheless, if the GSE fails to meet the benchmark for two consecutive years, the enforcement factor will not be considered when evaluating performance in the third year.

[2] The forecasts provided here are based on available data as of September 27, 2024. In particular, we rely on monthly HMDA time series data up to 2022. The estimates of 2023 market performance are based on the public HMDA snapshot data, which provides an annual view. These 2023 estimates are used to align the projections for 2023 with 2023 actuals and adjust the subsequent market forecasts for the period between 2024 and 2027 based on this calibration. These projections rely on the patterns present in historical data and assume no explicit changes from the GSEs or any other market participant in response to changing market conditions. The confidence bands reflect the uncertainty around these future projections, which in part reflect uncertainty around how market participants might respond to changing market conditions.

to support the prediction that the upward trend in recent years will continue. More detailed discussions are provided below.

The proposed annual benchmarks for the two purchase goals, LIP and VLIP, have decreased from the current annual benchmarks to 25% and 6%, respectively. The FHFA 2024 model forecasts the average market LIP shares for 2025-2027 at 26.6%, while the ESR market model forecasts a relatively lower market performance of 26.0% over the same period. Both forecasts are above the proposed annual benchmark for LIP (Table 2, Figure 2), but below the observed value of 26.8% in 2022.[3] Furthermore, the uncertainty around such forecasts is high. For example, the 95% confidence interval for the 2025 market performance estimated by ESR is ±7.2%, while FHFA reports a tighter 90% confidence interval at ±5.5%. One of the major concerns for the LIP performance is that the expected mortgage rate decline over the next few years may not be able to effectively alleviate the supply shortage to provide enough affordable housing units to the market.[4] In addition, as shown in Figure 6 below, as the housing supply shortage is likely to persist, home prices will likely stay elevated (although growth may slow), making home ownership a continued challenge for affordable borrowers.

Both the FHFA 2024 model and the ESR Market model forecast that the market VLIP will stay above the proposed annual benchmark, but there is a fair amount of uncertainty surrounding these forecasts as shown in Table 3. Similar to the case for LIP, uncertainty around supply constraint and affordability dynamics remain a major challenge in reaching the VLIP annual benchmark.

The proposed annual benchmark for the low-income refinance Housing Goal remains unchanged from the 2022-2024 annual benchmark. The LIR goal measures the share of each Enterprise's goal-qualifying refinance loans made to families with incomes no greater than 80 percent of AMI. The average annual LIR forecast (Table 4 and Figure 4) for the 2025-2027 period is 40.8% based on the FHFA 2024 model, while the ESR Market model predicts 39.3% for the same period. The ESR Market model forecasts market LIR will decrease in 2025 from 2024, while the FHFA model does not. Such a difference reflects different views on the expected dynamics of future interest rates. As shown in Figure 7, Fannie predicts mortgage rates will decrease faster than the Moody's forecast used by FHFA. Financially sophisticated borrowers, who are usually higher income, tend to respond faster to lower interest rates; therefore, the share of low-income borrowers in the market will likely decline as rates decline. The ESR model featuring similar dynamics exhibits the same pattern: LIR shares decrease as the rate gets lower. Although lower interest rates help ameliorate the affordability condition in the purchase market, it poses a challenge to the low-income refinance market. In addition, the market LIR performance only went above the benchmark four times in the observed history: 2018, 2021, 2022 and 2023, while the post-pandemic experience in the most recent three years may not reflect what will happen in the future.

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[3] ESR estimates the 2023 market LIP share is 26.3% with the public 2023 HMDA snapshot data, but the official market determination comes from FHFA.

[4] See ESR's September Macro and Housing Forecast for a view on the expected mortgage rate decline as well as as the associated commentary which includes the following relevant excerpt: "*Despite a meaningful pullback in mortgage rates over the past few months, home purchase activity continues to be unresponsive, with existing home sales remaining near cycle lows. Lock-in effects and affordability constraints are keeping many would-be homebuyers on the sidelines.*"

The proposed rule sets the annual benchmark for LICT at 4% for 2025-2027. The market forecasts based on the FHFA 2024 model and the ESR Market model (Table 5 and Figure 5) show that the expected market performance will reach the proposed annual benchmark, with relative certainty given the relatively tight confidence bands.

The proposed annual benchmark for the area subgoal minority census tract has increased to 12%, 2% points higher than the 2022-2024 annual benchmark. Although the FHFA 2024 model forecasts that the market will stay above this level, the ESR Market model forecasts that the market performance could fall below this level. Additionally, the Fannie model also forecasts the Fannie performance in 2027 for MCT will fall below the proposed annual benchmark. When reviewing the history shown in Figure 4, it is easy to find that there was an upward trend in the market MCT, and the proposed benchmark is very close to the highest level observed in history. It is reasonable to infer that the model forecasts are driven by recent strong momentum or some other factors with a similarly strong trend; nevertheless, it is unclear whether such momentum will continue in the future.

In conclusion, comparison between different model forecasts as well as some review of historical observations highlight the challenges and uncertainty surrounding the 2025 – 2027 proposed annual benchmarks.

References

Lam Ken. 2021. “The Size of the Affordable Mortgage Market: 2022-2024 Enterprise Single-Family Housing Goals.” August 31.URL: https://www.fhfa.gov/sites/default/files/documents/Dec2021_Market-Estimates-2022-2024.pdf

Ubogu Omena. 2025. “The Size of the Affordable Mortgage Market: 2025-2027 Enterprise Single-Family Housing Goals.” August 22. URL: Market Estimates 2025-2027 (fhfa.gov)

Fannie Mae ESR, 2024, “Economic Development – September 2024”, September 2024. URL: https://www.fanniemae.com/research-and-insights/forecast/economic-developments-september-2024

Appendix – Tables and Figures

Please find below market forecasts for all five Housing Goal metrics extended through 2027.

Tables

Table 1: Probability of Fannie's Performance and Forecasts Not Meeting the Proposed 2025- 2027 Annual Benchmarks

Year	LIP	VLIP	LIR	LICT	MCT
2025	7.85%	25.19%	4.20%	0.00%	2.41%
2026	7.24%	17.84%	13.86%	0.01%	12.22%
2027	7.17%	16.33%	18.71%	0.04%	27.22%

This table captures the probability of Fannie year-end forecasts not meeting the 2025-2027 proposed annual benchmarks.

Table 2: Annual Low-Income Purchase Performance & Forecasts[*§]

Year	ESR Market Model**	FHFA (2021) Replication***	FHFA (2021)	FHFA (2024)	Fannie Performance & Forecast****	FHFA Enterprise Benchmark
2010	28.3%	28.3%	28.3%	28.3%	5.4%	27%
2011	27.8%	27.8%	27.8%	27.8%	5.2%	27%
2012	26.9%	26.9%	26.9%	26.9%	5.4%	23%
2013	24.4%	24.4%	24.4%	24.4%	6.2%	23%
2014	23.2%	23.2%	23.2%	23.2%	7.2%	23%
2015	23.9%	23.9%	23.9%	23.9%	7.5%	24%
2016	22.8%	22.8%	22.8%	22.8%	8.0%	24%
2017	24.1%	24.1%	24.1%	24.1%	8.7%	24%
2018	25.5%	25.5%	25.5%	25.5%	9.1%	24%
2019	26.6%	26.6%	26.6%	26.6%	8.8%	24%
2020	27.6%	27.6%	27.6%	27.6%	8.2%	24%
2021	26.7%	26.7%	26.7%	26.7%	9.4%	24%
2022	26.8%	26.8%	27.5% (±2.3%)	26.8%	9.3%	28%
2023	26.3%	25.1% (±3.0%)	26.6% (±3.9%)	25.4% (±2.5%)	9.3%	28%
2024	25.7% (±5.6%)	25.7% (±5.2%)	25.7% (±5.0%)	27.0% (±4.3%)	26.8% (±0.9%)	28%
2025	25.9% (±7.2%)	26.9% (±6.6%)	25.5% (±5.9%)	27.2% (±5.5%)	28.4% (±4.4%)	25%
2026	26.1% (±8.4%)	27.5% (±7.8%)		26.6% (±6.5%)	29.9% (±6.1%)	25%
2027	26.1% (±9.6%)	27.9% (±8.8%)		26.1% (±7.3%)	31.0% (±7.5%)	25%

** 95% confidence bands displayed in parentheses for ESR Market Model, FHFA (2021) replication and Fannie forecast wherever forecast is reported. 90% confidence intervals are included in FHFA (2021) and FHFA (2024) models.*

*** ESR market LIP forecast is based the monthly HMDA time series data provided by FHFA but adjusted with the 2023 estimate using the 2023 public HMDA Snapshot data.*

**** ESR Replication of the LIP model in FHFA (2021) paper by Lam 2021 using Moody's variables.*

***** Fannie Mae forecasts are based off the latest monthly ESR Housing Goals Forecast (September 2024), using the extended data from ESR, and actual AMI.*

§The forecast was extended by using an ESR five-year forecast of macro variables such as home sales, unemployment rate, and inflation. This addition of macro data allows us to re-estimate the market and Fannie forecasts through 2027.

*Table **3**: Annual Very Low-Income Purchase Performance & Forecasts*[*§]

Year	ESR Market Model**	FHFA (2021) Replication***	Modified Adjusted Market Model****	FHFA (2021)	FHFA (2024)	Fannie Performance & Forecast*****	FHFA Enterprise Benchmark
2010	8.7%	8.7%	8.7%	8.7%	8.7%	7.3%	8%
2011	8.7%	8.7%	8.7%	8.7%	8.7%	7.6%	8%
2012	8.0%	8.0%	8.0%	8.0%	8.0%	7.3%	7%
2013	6.5%	6.5%	6.5%	6.5%	6.5%	6.0%	7%
2014	5.8%	5.8%	5.8%	5.8%	5.8%	5.6%	7%
2015	6.0%	6.0%	6.0%	6.0%	6.0%	5.6%	6%
2016	5.4%	5.4%	5.4%	5.4%	5.4%	5.0%	6%
2017	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	6%
2018	6.5%	6.5%	6.5%	6.5%	6.5%	6.7%	6%
2019	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6%
2020	7.0%	7.0%	7.0%	7.0%	7.0%	7.3%	6%
2021	6.8%	6.8%	6.8%	6.8%	6.8%	7.4%	6%
2022	6.8%	6.8%	6.8%	6.7% (±0.8%)	6.8%	6.9%	7%
2023	6.5%	5.9% (±1.2%)	6.5% (±1.3%)	6.2% (±1.4%)	6.1% (±1.1%)	6.0%	7%
2024	6.7% (±1.6%)	6.0% (±2.1%)	6.2% (±2.4%)	6.1% (±1.8%)	6.5% (±1.9%)	5.9% (±0.3%)	7%
2025	7.6% (±2.1%)	6.4% (±2.7%)	6.3% (±3.1%)	6.2% (±2.1%)	6.6% (±2.4%)	6.6% (±1.7%)	6%
2026	8.1% (±2.5%)	6.6% (±3.2%)	6.5% (±3.6%)		6.7% (±2.8%)	7.1% (±2.3%)	6%
2027	8.0% (±2.8%)	6.8% (±3.6%)	6.6% (±4.1%)		6.6% (±3.2%)	7.5% (±2.8%)	6%

** 95% confidence bands displayed in parentheses for ESR Market Model, FHFA (2021) replication and Fannie forecast wherever forecast is reported. 90% confidence intervals are included in FHFA (2021) and FHFA (2024) models.** ESR market VLIP forecast is based the monthly HMDA time series data provided by FHFA but adjusted with the 2023 estimate using the 2023 public HMDA Snapshot data.*

**** ESR Replication of the VLIP model in FHFA (2021) paper by Lam, 2021 using Moody's variables and this forecast is adjusted using HMDA 2023 Snapshot.*

***** ESR Modified market VLIP model updates ESR market VLIP model by excluding conforming loan limit. Residual analysis shows that this model is well specified. A multiplier is applied using the HMDA 2023 VLIP market estimate of 6.5% and the ESR 2023 market forecast of 6.6% to the baseline forecast, upper and lower bounds of the forecast.*

****** Fannie Mae forecasts are based off the latest monthly ESR Housing Goals Forecast (September 2024), using the extended data from ESR, and actual AMI.*

§The forecast was extended by using an ESR five-year forecast of macro variables such as home sales, unemployment rate, and inflation. This addition of macro data allows us to re-estimate the market and Fannie forecasts through 2027.

Table 4: Annual Low-Income Refinance Performance & Forecasts ***§**

Year	ESR Market Model**	FHFA (2021) Replication***	FHFA (2021)	FHFA (2024)	Fannie Performance & Forecast****	FHFA Enterprise Benchmark
2010	20.5%	20.5%	20.5%	20.5%	20.6%	21%
2011	21.8%	21.8%	21.8%	21.8%	22.8%	21%
2012	22.8%	22.8%	22.8%	22.8%	21.7%	20%
2013	24.9%	24.9%	24.9%	24.9%	24.3%	20%
2014	25.7%	25.7%	25.7%	25.7%	26.8%	20%
2015	23.1%	23.1%	23.1%	23.1%	22.1%	21%
2016	19.9%	19.9%	19.9%	19.9%	19.0%	21%
2017	25.4%	25.4%	25.4%	25.4%	24.8%	21%
2018	30.7%	30.7%	30.7%	30.7%	31.2%	21%
2019	24.0%	24.0%	24.0%	24.0%	24.0%	21%
2020	21.0%	21.0%	21.0%	21.0%	21.2%	21%
2021	26.1%	26.1%	26.1%	26.1%	26.2%	21%
2022	37.3%	37.3%	24.2% (±2.9%)	37.3%	34.7%	26%
2023	40.3%	39.3% (±4.7%)	22.3% (±5.0%)	38.4% (±2.9%)	38.4%	26%
2024	40.4% (±7.67%)	36.6% (±8.6%)	25.5% (±6.4%)	40.4% (±5.0%)	36.9% (±2.0%)	26%
2025	39.1% (±9.7%)	34.6% (±10.8%)	29.1% (±7.4%)	42.1% (±6.5%)	34.2% (±8.4%)	26%
2026	39.3% (±11.4%)	35.4% (±12.8%)		41.3% (±7.7%)	33.3% (±12.4%)	26%
2027	39.6% (±12.9%)	37.4% (±14.5%)		39.1% (±8.7%)	33.3% (±15.3%)	26%

** 95% confidence bands displayed in parentheses for ESR Market Model, FHFA (2021) replication and Fannie forecast wherever forecast is reported. 90% confidence intervals are included in FHFA (2021) and FHFA (2024) models.** ESR market LIR forecast is based the monthly HMDA time series data provided by FHFA but adjusted with the 2023 estimate using the 2023 public HMDA Snapshot data.*

**** ESR Replication of the LIR model in FHFA (2021) paper by Lam, 2021 using Moody's variables.*

***** Fannie Mae forecasts are based off the latest monthly ESR Housing Goals Forecast (September 2024), using the extended data from ESR, and actual AMI.*

§The forecast was extended by using an ESR five-year forecast of macro variables such as home sales, unemployment rate, and inflation. This addition of macro data allows us to re-estimate the market and Fannie forecasts through 2027.

Table 5: Annual Low-Income Area Subgoal Performance & Forecasts§*

Year	ESR Market Model**	FHFA (2021) Replication***	FHFA (2021)	FHFA (2024)	Fannie Performance & Forecast****	FHFA Enterprise Goal
2010	5.9%	5.9%	5.9%	5.9%	5.4%	
2011	5.8%	5.8%	5.8%	5.8%	5.2%	
2012	5.8%	5.8%	5.8%	5.8%	5.4%	
2013	6.5%	6.5%	6.5%	6.5%	6.2%	
2014	7.3%	7.3%	7.3%	7.3%	7.2%	
2015	7.4%	7.4%	7.4%	7.4%	7.5%	
2016	8.2%	8.2%	8.2%	8.2%	8.0%	
2017	8.7%	8.7%	8.7%	8.7%	8.7%	
2018	9.2%	9.2%	9.2%	9.2%	9.1%	
2019	9.0%	9.0%	9.0%	9.0%	8.8%	
2020	8.6%	8.6%	8.6%	8.6%	8.2%	
2021	9.6%	9.6%	9.6%	9.6%	9.4%	
2022	9.7%	9.7%	9.7% (±0.6%)	5.9%	9.3%	4%
2023	10.2%	10.1% (±0.7%)	10.0% (±1.0%)	10.2% (±0.6%)	9.3%	4%
2024	10.2% (±1.2%)	10.1% (±1.1%)	10.2% (±1.2%)	10.1% (±1.0%)	9.6% (±0.2%)	4%
2025	10.2% (±1.5%)	10.2% (±1.4%)	10.3% (±1.5%)	10.0% (±1.3%)	9.0% (±1.1%)	4%
2026	10.2% (±1.8%)	10.3% (±1.7%)		9.9% (±1.5%)	8.7% (±1.6%)	4%
2027	10.4% (±2.0%)	10.4% (±1.9%)		9.9% (±1.7%)	8.6% (±2.0%)	4%

** 95% confidence bands displayed in parentheses for ESR Market Model, FHFA (2021) replication and Fannie forecast wherever forecast is reported. 90% confidence intervals are included in FHFA (2021) and FHFA (2024) models.*

*** ESR market LICT forecast uses HMDA 2022 monthly time series data.*

**** ESR Replication of the LICT model in FHFA (2021) paper by Lam, 2021 using Moody's variables.*

***** Fannie Mae forecasts are based off the latest monthly ESR Housing Goals Forecast (September 2024), using the extended data from ESR, and actual AMI.*

§The forecast was extended by using an ESR five-year forecast of macro variables such as home sales, unemployment rate, and inflation. This addition of macro data allows us to re-estimate the market and Fannie forecasts through 2027.

Table 6: Annual Minority Area Subgoal Performance & Forecasts[*§]

Year	ESR Market Model**	FHFA (2021) Replication***	FHFA (2021)	FHFA (2024)	Fannie Performance & Forecast****	FHFA Enterprise Goal
2010	6.9%	6.9%	6.9%	6.9%	7.0%	
2011	6.4%	6.4%	6.4%	6.4%	6.4%	
2012	7.0%	7.0%	7.0%	7.0%	7.7%	
2013	7.0%	7.0%	7.0%	7.0%	7.7%	
2014	7.7%	7.7%	7.7%	7.7%	8.3%	
2015	7.5%	7.5%	7.5%	7.5%	8.1%	
2016	7.6%	7.6%	7.6%	7.6%	8.1%	
2017	8.3%	8.3%	8.3%	8.3%	9.6%	
2018	8.8%	8.8%	8.8%	8.8%	11.0%	
2019	9.1%	9.1%	9.1%	9.1%	10.8%	
2020	9.1%	9.1%	9.1%	9.1%	10.1%	
2021	9.5%	9.5%	9.5%	9.5%	11.0%	
2022	12.1%	12.1%	9.3% (±0.9%)	12.1%	13.5%	10%
2023	11.7%	11.6% (±1.4%)	9.2% (±1.4%)	12.0% (±1.4%)	12.6%	10%
2024	11.7% (±2.4%)	11.7% (±2.4%)	8.9% (±1.8%)	12.5% (±2.3%)	13.0% (±0.4%)	10%
2025	11.8% (±3.0%)	11.7% (±3.0%)	8.7% (±2.1%)	12.4% (±2.9%)	12.8% (±2.5%)	12%
2026	11.8% (±3.6%)	11.7% (±3.5%)		12.3% (±3.4%)	12.3% (±3.6%)	12%
2027	11.7% (±4.0%)	11.7% (±4.0%)		12.4% (±3.9%)	11.4% (±4.4%)	12%

** 95% confidence bands displayed in parentheses for ESR Market Model, FHFA (2021) replication and Fannie forecast wherever forecast is reported. 90% confidence intervals are included in FHFA (2021) and FHFA (2024) models.** ESR market MCT forecast uses HMDA 2022 monthly time series data.*

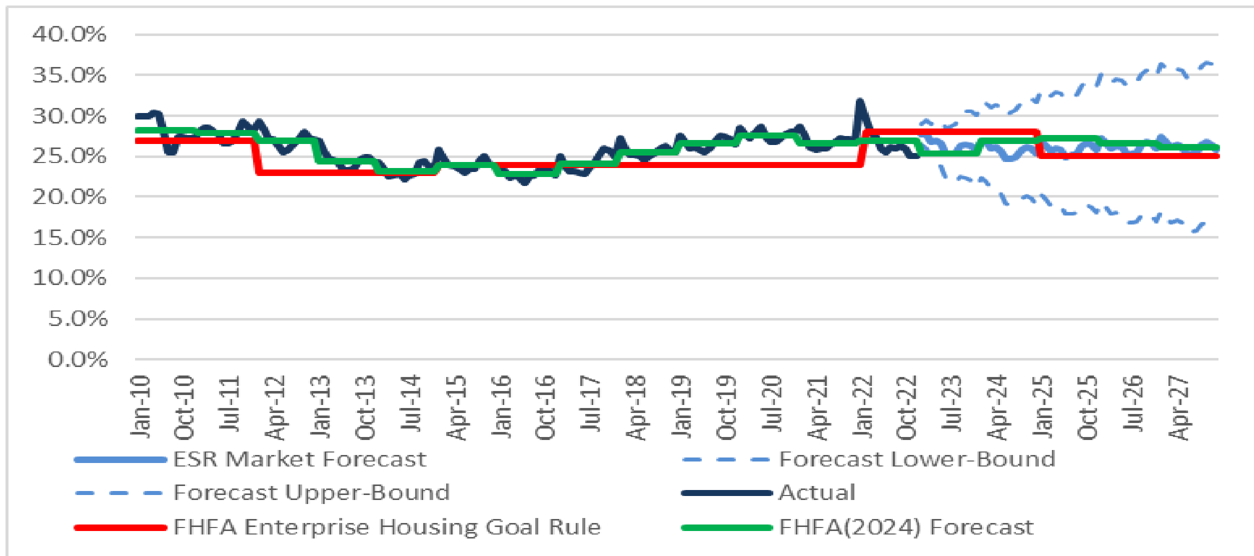
**** ESR Replication of the MCT model in FHFA (2021) paper by Lam, 2021 using Moody's variables.*

***** Fannie Mae forecasts are based off the latest monthly ESR Housing Goals Forecast (September 2024), using the extended data from ESR, and actual AMI.*

§The forecast was extended by using an ESR five-year forecast of macro variables such as home sales, unemployment rate, and inflation. This addition of macro data allows us to re-estimate the market and Fannie forecasts through 2027.

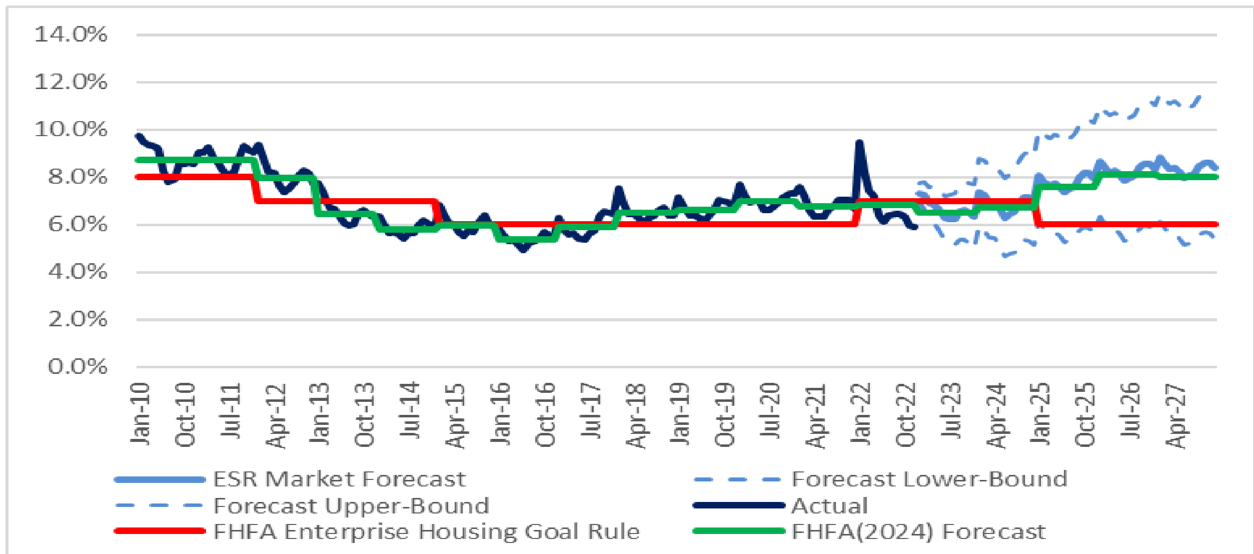
Figures

Figure 1: Fannie Mae Model of Market Performance for the Low-Income Purchase Goal



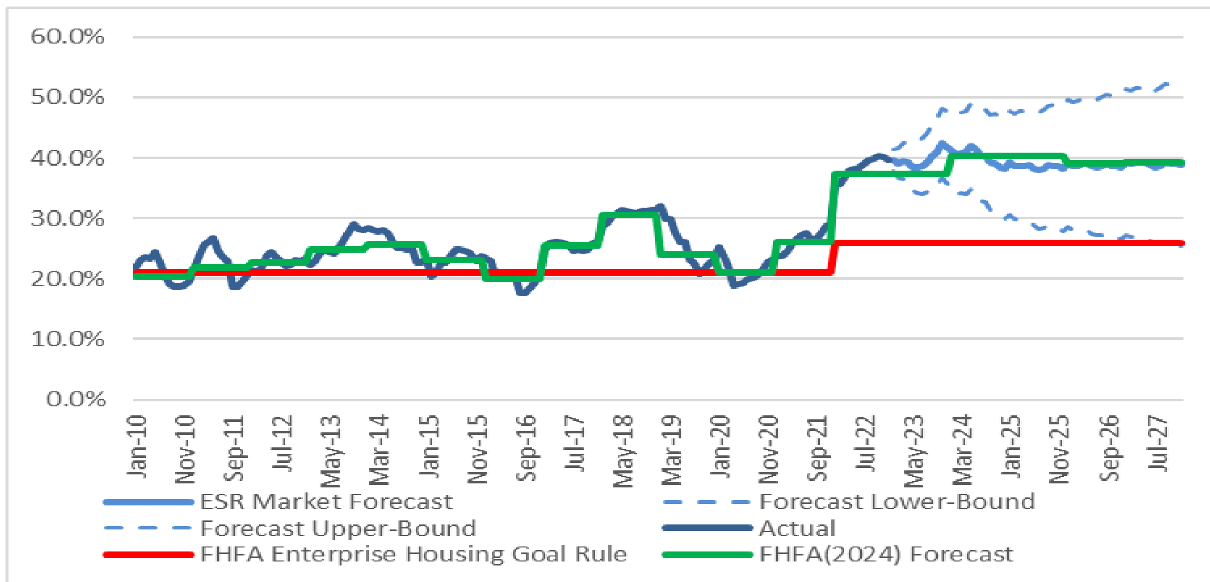
The ESR Market Forecast is plotted along with its upper and lower bounds. FHFA (2024) Forecast plots the actuals till 2022 and 2023-2027 is the yearly forecast.

Figure 2: Fannie Mae Model of Market Performance for the Very Low-Income Purchase Goal



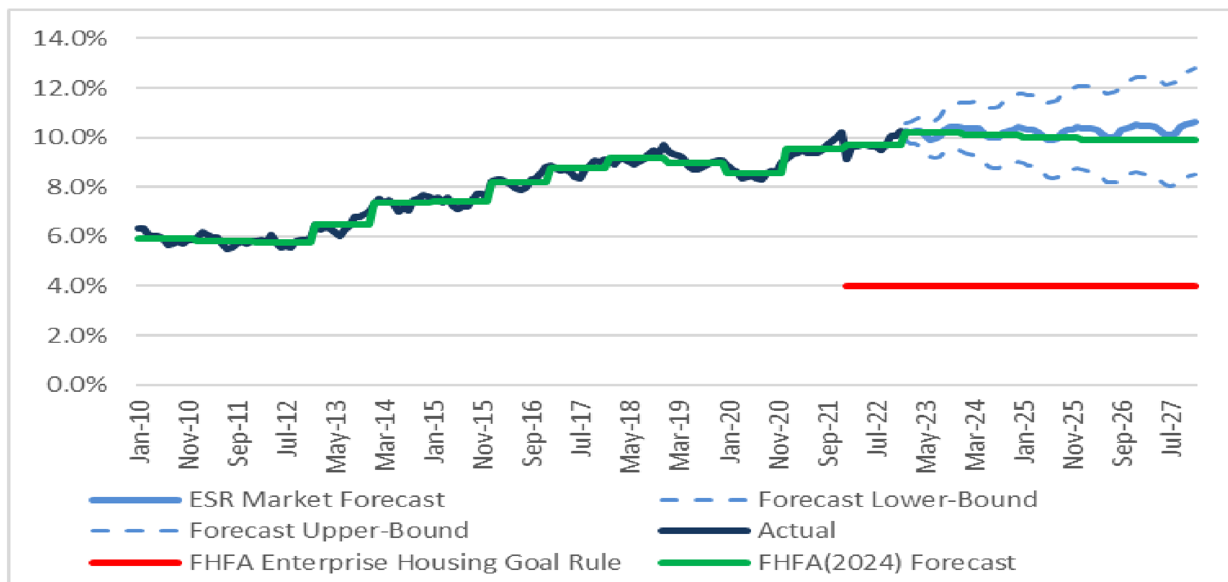
The ESR Market Forecast is plotted along with its upper and lower bounds. FHFA (2024) Forecast plots the actuals till 2022 and 2023-2027 is the yearly forecast.

Figure 3: Fannie Mae Model of Market Performance for the Low-Income Refinance Goal



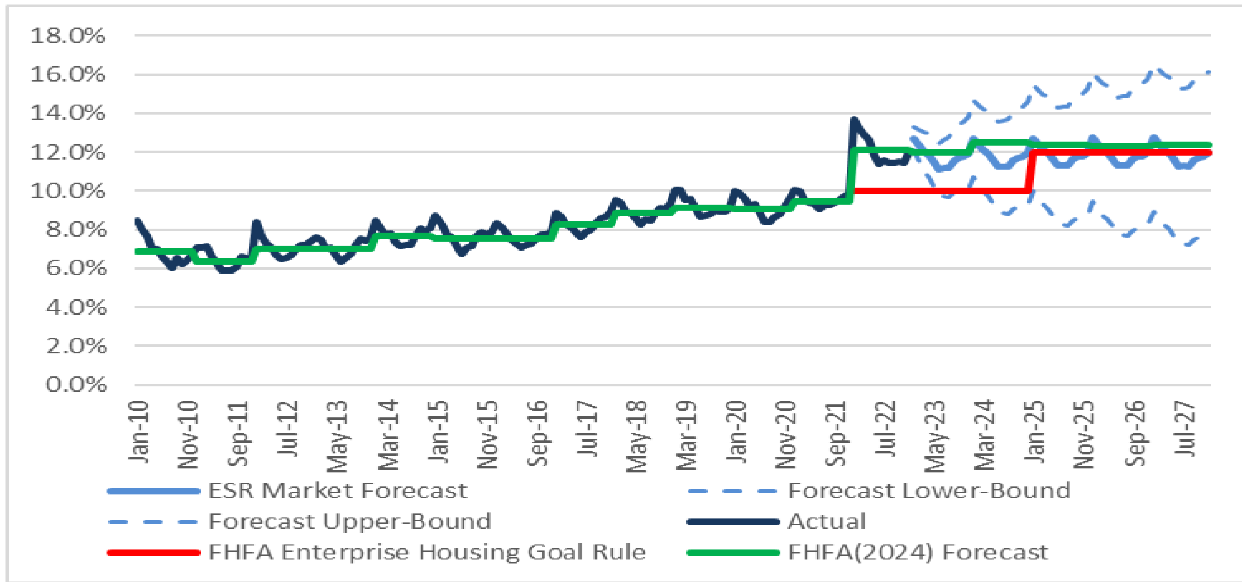
The ESR Market Forecast is plotted along with its upper and lower bounds. FHFA (2024) Forecast plots the actuals till 2022 and 2023-2027 is the yearly forecast.

Figure 4: Fannie Mae Model of Market Performance for the Low-Income Census Tract Area Subgoal



The ESR Market Forecast is plotted along with its upper and lower bounds. FHFA (2024) Forecast plots the actuals till 2022 and 2023-2027 is the yearly forecast.

Figure 5: Fannie Mae Model of Market Performance for the Minority Census Tract Area Subgoal



The ESR Market Forecast is plotted along with its upper and lower bounds. FHFA (2024) Forecast plots the actuals till 2022 and 2023-2027 is the yearly forecast.

Figure 6: Moody's vs Fannie Home Price Index

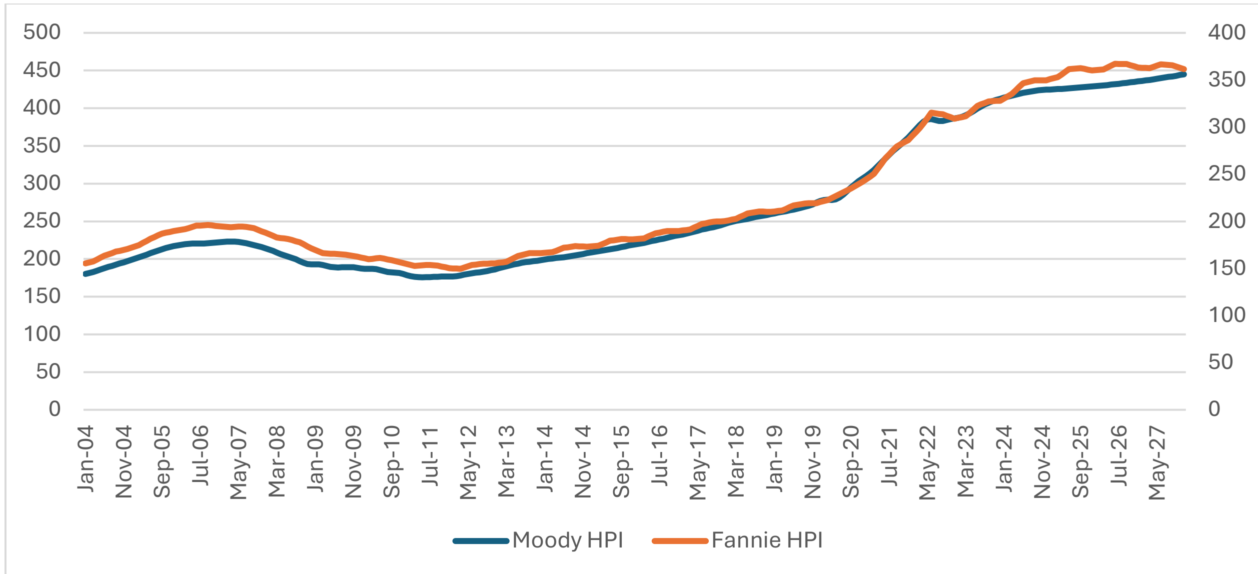
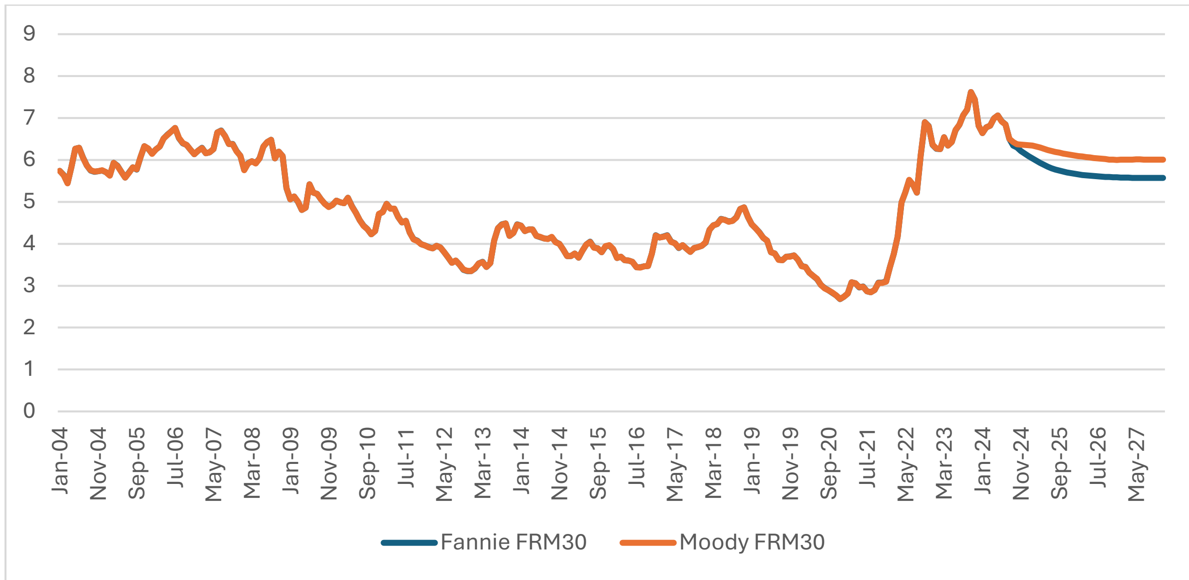


Figure 7: Moody's vs Fannie FRM30



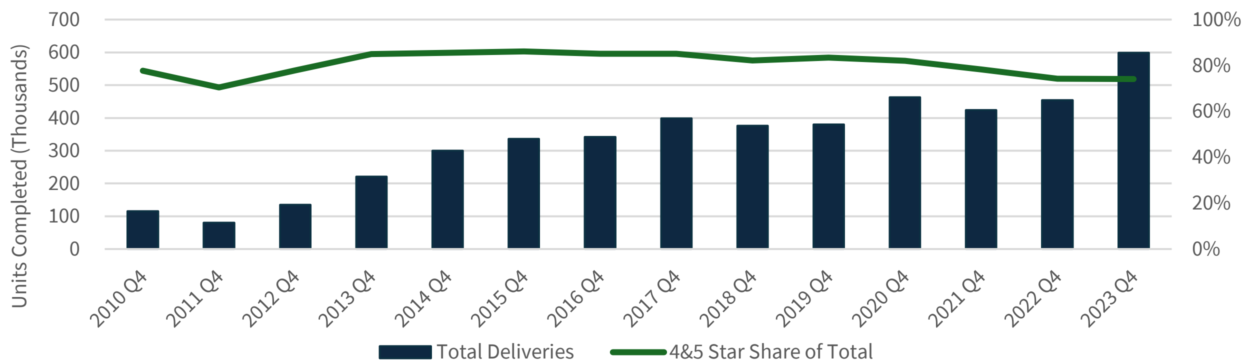
Macroeconomic factors and emerging local regulatory requirements may impact future affordability and affect our ability to meet housing goals.

We agree with FHFA's assessment of recent and current factors affecting affordability of rental units, and we believe that certain macroeconomic factors and emerging local regulatory requirements will continue to impact affordability across all properties. This could potentially affect the ability of the Enterprises to meet housing goals in the later years of the Proposed Rule and in the future.

A. Limited new supply will result in increased rent growth, reducing affordability

The supply of affordable multifamily properties is finite, and growth is limited because it is difficult to build new affordable multifamily properties in the current economic environment without local subsidies or federal assistance to keep the rents affordable. As a result, there has been little growth in the supply of affordable units over the past few years because most new units consist of more expensive, Class A units[1], as shown in the chart below. This has, and will continue to, put upward pressure on rents, thereby further reducing affordability and the number of affordable properties seeking financing.

Multifamily New Construction Units Completed by Year and Ranking

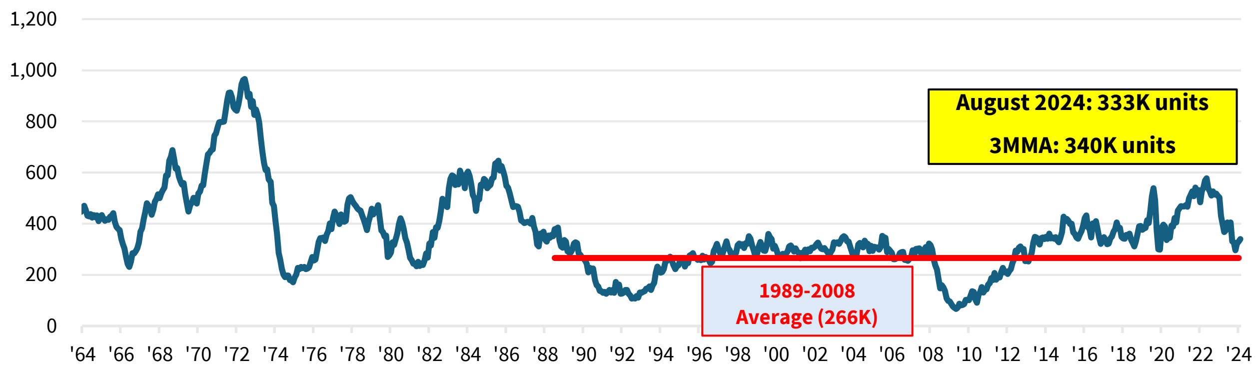


Source: CoStar - Star ranking based on quality of materials, amenities, and location with four- and five-star properties having the best of all three.

[1] RealPage, Inc. defines Class A properties as those properties with rents that fall in the top 20%, Class B as properties with rents that fall between the top 20% and the bottom 20%, and Class C as properties with rents that fall in the bottom 20%, of the rent distribution for a given market. https://onesitehelp.realpage.com/OneSiteHTMLHelp/MA/40/index.asp?pg=rma-data-direct&vr=40&Scrver=350&ts=1728400466209#264820.htm CoStar 4- and 5-star properties are generally the most expensive in a market, similar to RealPage's definition of Class A properties.

The decline in new construction starts for multifamily properties in 2023 and 2024 will further limit supply and worsen affordability over the period covered by the Proposed Rule. It can take between two and three years on average for a new multifamily property to obtain entitlements and complete construction. As seen in the chart below, new multifamily construction starts have been declining over the past 12 to 18 months. The current pace of new construction suggests that far fewer new units will be completed by 2026 and 2027, putting upward pressure on all classes of multifamily rents starting in late 2025.

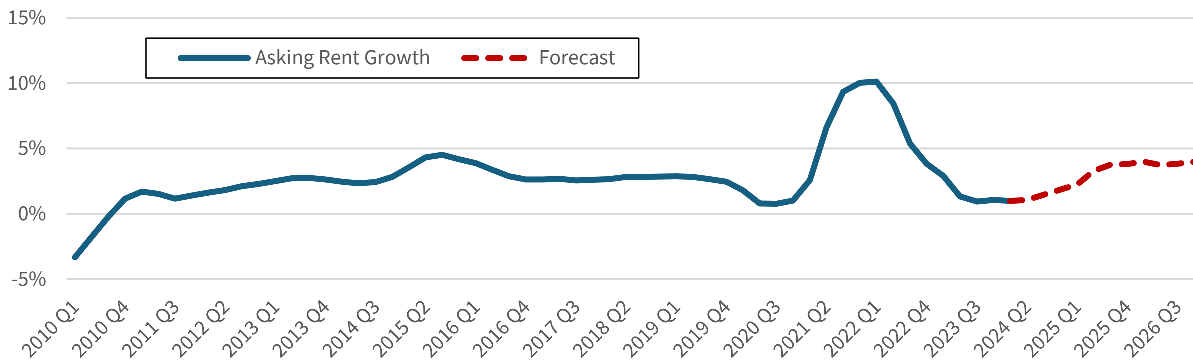
Multifamily (5+ units) Starts (3 month moving average, SAAR, Thousands)



Source: https://www.census.gov/construction/nrc/nrcdatarelationships.html

Rent growth increased during the first half of 2024. Although we expect that the trajectory of rent growth over the second half of this year will begin to ease, we expect rent growth for the year in the range of 1.0% to 1.5%. Industry estimates are consistent with our projections, with CoStar expecting overall annual rent growth to be within our range at 1.3% in 2024, and then to increase over the next few years, as shown in the chart below.

Multifamily Asking Rent Change 2010 – 2026 – All Multifamily Classes



Source: CoStar - August 2024

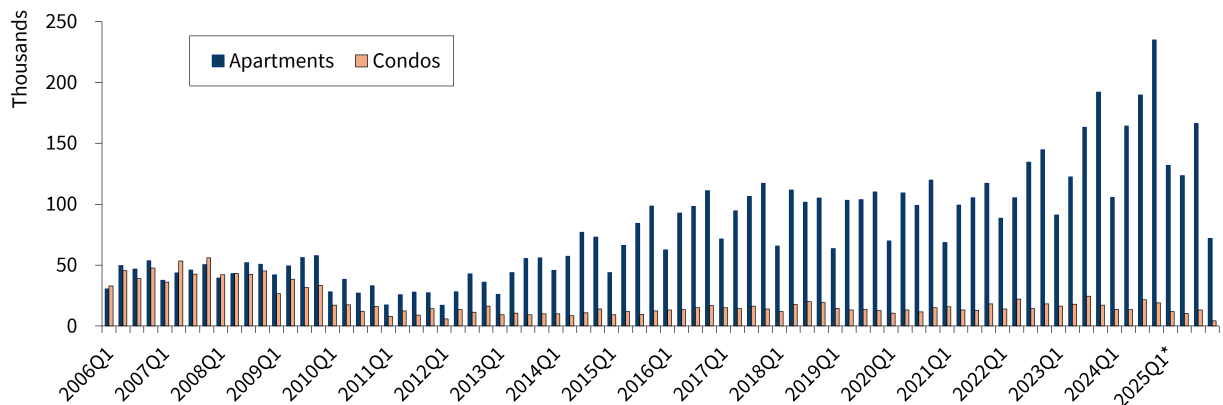
Demand for different classes of multifamily units is uneven, with demand for the most affordable units the highest. Class C units are forecasted to have positive annualized rent growth of 2.1% this year. From 2025 through 2027, CoStar expects that rents for all classes of units will increase at a higher rate, with Class C rent growth expected to continue to outpace both Class B and Class A in 2025 and 2026. Pressure on affordability across all rent levels of multifamily rental units will continue, particularly on more affordable Class C units.

The projected increase in rent growth over the next few years will affect which properties can meet thresholds of affordability for low-income and very low-income renters, limiting the number of loans available to the Enterprises to acquire that meet housing goals.

B. A decrease in construction will result in fewer permanent loan originations

Another consequence of declining new multifamily construction will be that there will also be fewer new properties available for sale, which will lead to fewer new permanent loan originations further out into the forecast. Even with a new building needing a year or so for stabilization, there will be fewer of those properties available for origination/acquisition starting as soon as in 2026 and then beyond. As a result, the overall total number of multifamily originations available to the Enterprises to acquire may be impacted over the longer-term, with increased competition for loans seeking to refinance. As shown in the chart below, multifamily completions are projected to drop significantly in 2025 and that trend is likely to continue for several years.

Multifamily Construction Pipeline



Source: Dodge Pipeline - September 2024

C. Wage growth will not offset recent rent growth or projected rent growth

Many renters rely solely on wages for income, making wage growth an important indicator of affordability. Improvement in rental affordability is primarily attained when wage growth meaningfully outpaces rent growth. As shown in the chart below, rent growth has outpaced wage growth in most of the past 20 years. The average effective rent increased 108% from 2004-2023, while average hourly earnings of non-supervisory and productions workers only increased 84%. While wage growth is projected to exceed rent growth in 2024, Moody's analytics is predicting that wage growth will slow to approximately 3% starting in 2025. This is in line with the rent growth projections for RealPage, which is expecting rent growth in the range of 3% from 2025 to 2028. As a result, we do not expect any recent wage gains to overcome two decades where rent growth has outpaced wage growth for many Class B and C renters and the compounding effect of that earlier rent growth. This will continue to impact renter cost-burdens and make it more challenging to acquire units which are affordable.

Year-over-Year Change in Private Sector Nominal Average Hourly Earnings and Effective Rent (2004 – 2028)

** Projected*

Source: Moody's Analytics, RealPage