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(703) 903-2000
Freddie Mac.com

8200 Jones Branch Drive
McLean, VA 22102

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By Electronic Delivery Through the Federal eRulemaking Portal

Mr. Clinton Jones
General Counsel
Federal Housing Finance Agency
400 Seventh Street, SW
Washington, DC 20219

Re: Proposed Rulemaking on 2025-2027 Enterprise Housing Goals – Comments/RIN 2590-AB34 (Enterprise Housing Goals)

Dear Mr. Jones:

Freddie Mac appreciates the opportunity to provide comments on the Federal Housing Finance Agency's ("FHFA") proposed rule to establish the 2025-2027 Enterprise Housing Goals (the "Proposed Rule"). Freddie Mac is committed to our statutory mission of providing liquidity, stability, and affordability to the U.S. housing market and supporting affordable housing opportunities for low- and moderate-income borrowers in communities across the country in all economic conditions.

FHFA's Proposed Rule proposes ambitious affordable housing goals for 2025-2027 that take into account the continued market challenges facing homebuyers, homeowners, and renters as well as ongoing uncertainty in the housing market. Freddie Mac generally supports the proposed benchmarks as we believe that they will require the Enterprises to continue taking proactive measures to support the housing finance needs of low- and very low-income households while maintaining safety and soundness.

Freddie Mac also supports the proposed enforcement factors, which will allow Freddie Mac to focus on complying with the single-family housing goals by meeting the market levels when the market is below the applicable benchmark level. The establishment of enforcement factors rightly acknowledges the complexity and uncertainty inherent in forecasting the single-family mortgage market.

Our comments on the Proposed Rule are organized as follows:

SECTION I discusses the proposed 2025-2027 single-family goals and the ongoing single-family market conditions that impact Freddie Mac's achievement of the proposed single-family benchmarks.

SECTION II discusses the proposed 2025-2027 multifamily goals and the continued multifamily market conditions that impact Freddie Mac's achievement of the proposed multifamily housing goals.

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I. Proposed 2025-2027 Single-Family Enterprise Housing Goals

a. Support for proposed single-family goals

Freddie Mac believes that the proposed single-family benchmarks set meaningful and appropriate objectives for the Enterprises considering the current and foreseeable market conditions and persistent housing affordability challenges. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 ("Safety and Soundness Act") requires consideration of seven statutory factors in setting the single-family housing goals, including economic, housing, and demographic conditions, and expected market developments.[1] FHFA relies on statistical market models to evaluate many of these statutory factors. However, there are several conditions other than the statutory factors that can affect the affordable housing market and significantly impact the ability of an Enterprise to meet these goals. Although FHFA's models address and forecast the factors referenced in the statute, each of the conditions discussed below, is currently in a state of flux and market developments cannot be reasonably anticipated, which potentially impacts our ability to meet the goals.

The mortgage rate lock-in effect[2], wherein homeowners are hesitant to move to a new home because the interest rate on their existing mortgage is significantly lower than rates currently available in the market, is a prime example of an unpredictable housing market condition that affects both forecasting and execution in the targeted portions of the market. Currently, there is no long-term data series that captures the actual impact[3] this phenomenon is having on the market or housing supply. It is discussed by FHFA as a primary consideration for setting the refinance housing goals; however, we believe the rate lock-in effect is also relevant for the purchase-money market. According to an FHFA research report[4], the mortgage rate lock-in effect led to a reduction in home sales through 2023. The report estimates that for every percentage point that the mortgage rate exceeds the rate at which a home was bought, the likelihood of a homeowner putting their home on the market decreases by more than 18%[5]. With nearly 60% of existing homeowners having mortgage rates below 4%[6] as of October 2023, this scenario not only discourages homeowners from refinancing or selling their homes, but also restricts the supply of homes for sale and keeps some prospective homebuyers on the sidelines.

In addition to the rate lock-in effect, the housing market continues to fluctuate under the impact of current mortgage interest rates. Although interest rates declined slightly in 2024 from their recent highs, they remain elevated compared to record low levels that had become the norm during and after the Great Recession. The interest rate on 30-year fixed-rate mortgages averaged 6.85% in July, as measured by Freddie Mac's Primary Mortgage Market Survey® and ended the month at 6.78%. Despite the rate drop from 6.92% in June to 6.85% in July, mortgage activity remained muted[7]. Both existing and new home sales declined in June. Total (existing and new) home sales for June came in

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1 12 U.S.C. § 4562(e)(2)(B) (2018).

2 Ross M. Batzer, Jonah R. Coste, William M. Doerner & Michael Seiler, *The Lock-In Effect of Rising Mortgage Rates,* FHFA Working Paper 24-03, Mar. 18, 2024, https://www.fhfa.gov/research/papers/wp2403#:~:text=This%20paper%20finds%20that%20for%20every%20percentage%20point,prevented%201.33%20million%20sales%20between%202022Q2%20and%202023Q4.

3 2025-2027 Enterprise Housing Goals, 89 Fed. Reg. 70127, 70139 (proposed Aug. 29, 2024) (to be codified at 12 C.F.R. pt. 1282).

4 Batzer et al., supra note 2.

5 Id.

6 Id.

7 U.S. Economic, Housing and Mortgage Market Outlook – August 2024 | Spotlight: Refinance Trends, Aug. 20, 2024, https://www.freddiemac.com/research/forecast/20240820-us-economy-continues-remain-strong.

at 4.5 million, the lowest level since July 2011. Existing and new home inventory improved in June but remains below the pre-pandemic average.

Furthermore, FHFA's purchase-only House Price Index ("HPI") indicates that home prices increased rapidly in 2021 and 2022 "due to a combination of high demand for housing resulting from demographic trends and limited supply of homes for sale."[8] In the second quarter of 2023, the HPI remained high as median existing home prices increased in 171 of 177 metro areas and prices in metro areas increased 9%.[9] More generally, since December 2019, house prices grew by almost 50% in nominal terms as measured by the Freddie Mac House Price Index. As home prices increased, borrowers' income did not keep apace. According to the Joint Center for Housing Studies of Harvard University, home price-to-income ratios are at record highs. "In 2022, the median sale price for a single-family home in the US was 5.6 times higher than the median household income, higher than at any point on record dating back to the early 1970s."[10] High interest rates, combined with continued increases in home prices at levels that outpace wage growth further exacerbate affordability challenges and prevent many very low-, low-, and moderate-income households from becoming homeowners.

Each of these conditions, whether alone or combined, contribute to continued uncertainty in the affordable housing market. In the Proposed Rule, FHFA notes, "There are many factors that impact the affordable housing market, and changes to any of them could significantly impact the ability of the Enterprises to meet the goals."[11] To address the continued uncertainty in market conditions that make it hard to forecast, FHFA is proposing to establish new enforcement factors. The single-family benchmark levels proposed by FHFA are based on the market forecast model[12] and include "the best-fit model specifications and key driver variables for all goal-qualifying shares."[13] We support FHFA's forecast of the single-family market for the 2025-2027 housing goal period and believe that the proposed benchmark levels for the single-family housing goals, coupled with the proposed enforcement factors, are a prudent approach that are consistent with FHFA's statutory responsibilities under the Safety and Soundness Act while accounting for both known and unknowable market conditions.

b. Enforcement factors

The Proposed Rule would establish a new process for evaluating compliance with housing goals that are deemed feasible by establishing enforcement factors that recognize the complexity and uncertainty of the very low-income and low-income purchase markets. Freddie Mac agrees with this approach and believes that it appropriately accounts for market fluctuations and uncertainties that cannot be adequately predicted months or years in advance because of the lack of inclusive and timely market data, public or non-public. As illustrated in Table 2 of the Proposed Rule, the current market

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[8] FHFA House Price Index Monthly Report, July 30, 2024, https://www.fhfa.gov/sites/default/files/2024-07/FHFA-HPI-Monthly-07302024.pdf; *E.g.,* 2025-2027 Enterprise Housing Goals, 89 Fed. Reg. at 70132.

[9] FHFA House Price Index Monthly Report, supra note 9; *E.g.,* 2025-2027 Enterprise Housing Goals, 89 Fed. Reg. at 70132.

[10] Alexander Hermann & Peyton Whitney, *Home Price-To-Income Ratio Reaches Record High*, Joint Center for Housing Studies of Harvard University (Jan. 22, 2024), https://www.jchs.harvard.edu/blog/home-price-income-ratio-reaches-record-high-0.

[11] 2025-2027 Enterprise Housing Goals, 89 Fed. Reg. at 70131.

[12] Omena Ubogu, FHFA, The Size of the Affordable Mortgage Market: 2025-2027 Enterprise Single-Family Housing Goals, Aug. 22, 2024, 3, https://www.fhfa.gov/sites/default/files/2024-09/Market-estimates_2025-2027.pdf.

[13] Id. at 5.

forecast range for low-income home purchases steadily increases from ±5.5% in 2025 to ±7.3% in 2027[14]. Although the current market forecast range for very low-income home purchases is not as significant as the low-income home purchases market forecast, Table 3 of the Proposed Rule[15] reflects the same trend. When looking at each of the current market forecasts for the single-family housing goals and subgoals, it is apparent that the potential margin of error increases in the latter years of the forecast.

By establishing the enforcement factors, FHFA is creating a mechanism to offset the gap between the actual and forecasted market levels. This is a necessary safeguard given the wide range of the market forecasts. Moreover, FHFA is proposing to limit the Enterprises' ability to rely on the enforcement factors. Specifically, if an Enterprise fails to meet the low-income or very low-income home purchase goal in both 2025 and 2026, then it cannot apply the enforcement factors to the applicable housing goal in 2027.[16] The limitation on the use of the enforcement factors will appropriately account for the uncertainty of market conditions and forecasting while maintaining the Enterprises' responsibility to develop strategies that advance sustainable housing for low-income and very low-income homebuyers. Although Freddie Mac's forecasts indicate that the very-low income and low-income housing markets will continue to face affordability challenges and unexpected market conditions during the 2025-2027 housing goal period, we are optimistic that we will meet these purchase goals and appreciate the flexibility provided under the proposed enforcement factors.

c. *Very low-income and low-income goals*

The FHFA proposed benchmarks and enforcement factors are further supported by the reality that forecasting the low-income and the very low-income home purchase market is particularly difficult due to data availability challenges. The Home Mortgage Disclosure Act ("HMDA") dataset is the primary source of data to forecast these markets, yet for any given calendar year, this data is not available until the second quarter of the following year at the earliest.[17] The forecasts for these markets cover a wide range and become broader the farther out in time the forecast is projected. In turn, challenges in effectively assessing actual market activity makes it difficult for the Enterprises to calibrate their strategies to satisfactorily achieve their affordable housing goals.

d. Minority census tracts subgoals

FHFA proposes to maintain the two single-family subgoals introduced in 2022, with a two-percentage point increase for the minority census tracts subgoal. Freddie Mac met the 2022 and 2023 (subject to confirmation by FHFA) targets in these two new areas and supports the continued focus on the expansion of homeownership in these communities. Forecasting for the subgoal categories involves the same complexities and uncertainty as the very low-income and low-income home purchase goals market and is further complicated by the geographic focus. It is difficult to obtain real-time metrics to size the affordable housing goal market. This issue is even more acute with the subgoals. As discussed above, HMDA data is released well after critical decisions must be made by the Enterprises to execute their housing goals strategies. Additionally, the available macroeconomic factors do not allow us to forecast with precision for the geographies the subgoals target.

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[14] 2025-2027 Enterprise Housing Goals, 89 Fed. Reg. at 70136.
[15] Id.
[16] Id. at 70130.
[17] The Size of the Affordable Mortgage Market, supra note 12.

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Notwithstanding the foregoing, the mortgage rate lock-in effect, interest rate levels, and housing costs that have been increasing faster than incomes, have the same cumulative effect in minority census tracts that they do in non-minority tracts. Therefore, it is notable that the proposed subgoal benchmark levels do not include enforcement factors similar to those made available for the low-income and very low-income home purchase goals. We believe that the subgoals would also benefit from the flexibility provided by the enforcement factors given the difficulty to forecast these markets in addition to the market conditions described above. Nonetheless, Freddie Mac will make every effort to achieve the minority census tracts subgoals.

e. *Low-income refinance goal*

FHFA proposes leaving the benchmark for the low-income refinance goal unchanged and building into the enforcement consideration the recognition that the refinance market is difficult to forecast, especially as interest rates are expected to decline. FHFA has noted that the mortgage rate lock-in effect is difficult to measure with historical data. The volatility and unpredictability of future interest rates makes forecasting the refinance market for 2025-2027 challenging. FHFA understands that if interest rates were to decline significantly, the proposed benchmark level could be difficult for the Enterprises to achieve.

In 2020, the mortgage market experienced a significant spike in refinance volume. Higher-income borrowers with higher loan balances and who stood to benefit most from a refinance were more immediately responsive to declining interest rates, decreasing the share of low-income borrowers seeking to refinance.

More recently, with higher mortgage rates since 2024, refinance activity retreated. The average mortgage rate on outstanding loans as of the first quarter of 2023 was 4.1% and mortgage rates for new mortgage offers during the same time were at 6.9%. Since then, 30-year fixed mortgage rates have dropped to 6.35% in August after the Federal Reserve Chair signaled that interest rate cuts were likely in the fourth quarter of 2024. The degree of impending interest-rate declines is uncertain, and it is difficult to predict the precise impact of the current rate lock-in effect on the market. The dynamic nature of the refinance market and its strong sensitivity to fluctuations in interest rates, together with the challenges of the lock-in effect and difficulties in forecasting the low-income refinance market, will continue to pose challenges for the Enterprises in achieving low-income refinance goals.

II. Proposed 2025-2027 Multifamily Enterprise Housing Goals

The multifamily origination market has been challenged by interest rate volatility and price depreciation. These have corresponded with broadly lower transaction volume than in prior years. In 2023, MBA's market size estimate was $246B, down from $480B the prior year. MBA's forecast for 2024 is higher, at $297B, but still low compared to recent years before 2023, indicating the market is not expected to return to the pre-pandemic origination environment. While in recent months, we have seen an increase in transactions at Freddie Mac, it is unclear how long this will continue, and if it is an indication of Freddie Mac providing necessary countercyclical liquidity or of a broad market turnaround. The latter is less likely, as we have observed that there still appears to be less property acquisition activity than in years prior to 2023.

We have also seen a long-run trend of declining affordability, as rent increases have generally outpaced income growth over the past 15 years. It appears, based on preliminary estimates, that in

2025, this may not be the case, but it remains to be seen if this long-run trend will truly reverse. Based on 2023 American Community Survey data, we can estimate that 2025 average AMI growth will be 3.6%, while per REIS, the rent growth estimate for 2025 is 2.7%. However, rents are still elevated, and given the long-run trend, it may take some time for the trend to truly reverse and for the market to see meaningful increases in affordability based on income and rent levels. Also, while rent growth slowed and might be expected to grow at a muted pace in 2025 at the national level, this is not the case in individual markets. Many markets that have been historically affordable for low-income and very low-income residents are seeing rent growth leading to a decline in affordability. This affects the availability of low-income and very low-income eligible housing units to finance.

The housing goals proposed by FHFA are sufficiently aggressive to ensure focus from the Enterprises on providing significant liquidity to support affordable housing during this market environment and are generally at a level that would not unintentionally constrain the Enterprises' ability to support the market in times of distress when, per our Charter, we are charged with stabilizing the market by providing liquidity. However, FHFA may consider whether the increase in the very low-income goal is warranted while the market is in a period of transition, as countercyclical liquidity to the whole market may still be required and the relative opportunity to provide financing for these units does not appear to have increased.

a. Low-income goal

Freddie Mac supports FHFA's proposal to maintain a consistent 61% goal for low-income housing considering the market environment. While we have consistently exceeded this level by more than 5 percentage points, we have also been called upon to provide countercyclical liquidity to the broader market—and may be called upon to do so again—so it is important to be able to devote a sufficient allocation of our lending activities more broadly to do so. In 2023 and thus far in 2024, we have seen a decrease in our share of low-income units relative to prior years, which we attribute to two factors: the need to provide broader countercyclical liquidity and a decline in affordability in certain markets. For example, from 2020 through 2023, an average of 88.4% of the goals-eligible units we financed in Hartford, CT were affordable to low-income renters, which is among the highest rate for all metros. Yet REIS reports that rents in Hartford grew 4.0% year-over-year in the second quarter of this year, compared with –1.1% nationally, which suggests there will be fewer such affordable units available to finance going forward. On the other end of the spectrum, rents are becoming relatively more affordable in markets that have historically had fewer opportunities to finance low-income qualifying units. Tampa, FL, for example, has seen rents contract year-over-year by 3.8%, but only 42.7% of units we have financed in Tampa from 2020-2023 were affordable to low-income renters. This modest relative reduction in rents is not necessarily likely to increase the availability of low-income qualifying units in need of financing.

b. Very low-income goal

While in its Proposed Rule, FHFA has increased this goal, we see opportunity for FHFA to reconsider this change in light of current market conditions. The Enterprises have historically exceeded this goal, but in the current market environment and its long-term trend of declining affordability the available units to finance may not support a 14% benchmark while leaving adequate space to continue to provide broad market support. To allow for an appropriate safeguard, FHFA could return this benchmark to 12%, which has been effective at driving Enterprise focus on this market segment while maintaining safety and soundness and the need to provide countercyclical liquidity. Similarly to our low-income share of units, in 2024 we have seen a decrease in our share of very low-income units. This can be attributed to the same two factors: the need to provide broader countercyclical liquidity and a decline in affordability in certain markets that have historically been more affordable to very low-income renters. For example, from 2020 through 2023, an average of 45.5% of the goals-eligible units we financed in Kansas City, MO-KS were affordable to very low-income renters, which is among the highest rate for all metros. Yet REIS reports that rents in Kansas City grew 0.9% year-over-year in the second quarter of this year, compared with –1.1% nationally, which suggests there will be relatively fewer such affordable units available to finance going forward. Conversely, rents are becoming relatively more affordable in markets that have historically had very few opportunities to finance very low-income qualifying units. Orlando, FL, for example, has seen rents contract year-over-year by 3.8%, but only 2.9% of units we have financed in Orlando from 2020-2023 were affordable to very low-income renters. This modest reduction in rents is not necessarily likely to meaningfully increase the availability of very low-income qualifying units in need of financing.

c. Low-income 5-50 unit subgoal

We have seen this segment of the market be especially sensitive to market conditions, rendering potentially fewer properties seeking financing relative to the market overall. FHFA's proposal to set the goal at 2% recognizes this. It is important that the Enterprises continue to play a balanced role in this market, as we can help to advance beneficial standards and provide countercyclical liquidity, but we must also be mindful that the housing goals do not prompt the Enterprises to incentivize transactions that would not otherwise be viable and crowd out the necessary private capital providers in this market segment, which has been historically well served by regional banks and small financial institutions. While there has been some recent disruption in this segment, and Freddie Mac has played its countercyclical role, it is important that these institutions continue to have a very important role serving their local markets.

CONCLUSION

Freddie Mac appreciates the opportunity to comment on the proposed 2025-2027 housing goals. We are focused and committed to making a meaningful contribution to expanding affordable homeownership. Our housing goals obligations are a central means by which we focus our resources and measure the success of our efforts to achieve our mission of promoting liquidity, stability, and affordability in the U.S. mortgage markets. As we strive to reach the proposed housing goals, we welcome the challenge and opportunity to contribute to more affordable homeownership opportunities throughout the nation.

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Sincerely,

Danny Gardner
Senior Vice President
Single-Family Mission &
Community Engagement

Corey Aber

Corey Aber
Vice President
Multifamily Mission, Policy & Strategy