Housing Finance & Regulatory Affairs
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October 5, 2020

Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Re: FHFA Strategic Plan: Fiscal Years 2021-2024

Submitted via Electronic Delivery to: www.fhfa.gov

Dear Sir or Madam:

NAHB appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Strategic Plan for Fiscal Years 2021-2024 (Strategic Plan). This plan builds on the strategic plan issued in October 2019 that directed Fannie Mae and Freddie Mac (the Enterprises) to prepare for the responsible end to their conservatorships. The new Strategic Plan offers a robust outline of goals and objectives for the effective supervision, regulation and housing mission oversight of Fannie Mae and Freddie Mac (the "Enterprises"), Common Securitization Solutions, LLC (CSS) and the Federal Home Loan Bank System (FHLBank System).

NAHB is a Washington-based trade association representing more than 140,000 members involved in all aspects of single-family and multifamily residential construction. The ability of the home building industry to meet the demand for housing, including addressing affordable housing needs, and contribute significantly to the nation's economic growth is dependent on an efficiently operating housing finance system that offers home buyers and producers of rental housing access to affordable mortgage financing at reasonable interest rates through all business conditions.

Background

In its current dual role as regulator and conservator of the Enterprises and as regulator of the FHLBank System, FHFA's regulatory authority is mandated in the Federal Housing Enterprises Financial Safety and Soundness Act as amended by the Housing and Economic Recovery Act (HERA) of 2008 and the Emergency Economic Stabilization Act (EESA) of 2008. Until such time as Congress revises these statutes and/or the charter missions of the Enterprises and the FHLBanks, FHFA's mandates are clear. Chief among its directives to oversee the Enterprises and the FHLBank System, FHFA is to ensure that "the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities)".

Currently, as conservator of the Enterprises, FHFA may take such actions as may be "necessary to put the regulated entity in a sound and solvent condition;" and "appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity." Finally, in its capacity as conservator of the Enterprises, FHFA has the statutory responsibility to seek solutions to minimize foreclosures. Twelve years after being placed in conservatorship, the future of the Enterprises remains unclear. Immediately following the meltdown of the mortgage market and the bailout of the Enterprises in 2008, there was enormous pressure by market participants to eliminate both Fannie Mae and Freddie Mac to remove the possibility of another taxpayer bailout. The current market pressure predominately seeks reform of the Enterprises with enhanced certainty of their safety and soundness and ability to support the mortgage market throughout inevitable market and economic cycles.

NAHB Comments on FHFA's Strategic Goals

NAHB appreciates FHFA's comprehensive and thoughtful Strategic Plan that considers the broad scope of its mandate to supervise and regulate the Enterprises in their current state while planning for their post-conservatorship success. The three Strategic Goals outlined by FHFA in the updated Strategic Plan are consistent with FHFA's duties and responsibilities as regulator and conservator of the Enterprises and regulator of the FHLBank System. The Strategic Plan also aligns with recommendations in the Housing Reform Plan issued by the U.S. Department of the Treasury in September 2019. In particular, the Housing Reform Plan calls for FHFA to begin the process of ending the Enterprises' conservatorships and promoting private sector competition by leveling the playing field for large and small businesses doing business with the "regulated entities."

<u>Strategic Goal 1: Ensure safe and sound regulated entities through world-class supervision</u>

Ensuring the safety and soundness of the Enterprises and the FHLBank System involves assessing, identifying, monitoring and supervising the risk management practices of the regulated entities, plus evaluating plans and subsequent actions taken to remediate any identified weaknesses in risk management practices. NAHB believes the Strategic Plan incorporates a comprehensive approach to accomplishing Strategic Goal 1.

<u>Strategic Goal 2: Foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets</u>

This strategic goal directly addresses how FHFA will ensure the Enterprises operate in a manner that will have a positive impact on all sectors of the national housing finance markets. NAHB is pleased to note one of FHFA's specific strategies to achieve Objective 2.1 "Institute reforms at the regulated entities that serve to foster CLEAR national housing finance Markets" is to ensure a fair playing field for large and small lenders when doing business with the regulated entities. Throughout the years of debating housing finance system reform, banking and mortgage organizations, as well as housing advocates, sought reassurance that any reform plans would prohibit the Enterprises from allowing policies that would advantage large lenders over small lenders.
In addition, NAHB has been an advocate of the Uniform Mortgage-Backed Security (UMBS) and Common Securitization Solutions (CSS) as significant contributions to housing finance system reform in the absence of legislative reform. We fully support these initiatives and the goal to enhance the liquidity of the Enterprises' MBS by reducing pricing disparity between Fannie Mae's and Freddie Mac's individual MBS. As noted in the Strategic Plan, FHFA will ensure that CSS and the UMBS function well and are widely accepted by market participants. This must include ongoing monitoring of prepayment speeds to ensure prepayment speeds of Fannie Mae-issued and Freddie Mac-issued UMBS do not become misaligned to the extent they are not interchangeable. NAHB is pleased the strategies to achieve Objective 2.1 call for FHFA to ensure the success of CSS and the UMBS remain priority goals.

<u>Strategic Goal 3: Position the Agency as a model of operational excellence by strengthening the workforce and infrastructure</u>

This goal addresses FHFA's commitment to cultivate an internal work environment where employees are valuable resources with opportunities to be innovative and advance. The importance of sound management of the agency's resources and efficient and resilient information technology systems are emphasized. NAHB agrees this goal is of great importance.

NAHB Recommendations to FHFA's Strategic Goals

NAHB has four recommendations for inclusion in FHFA's Strategic Plan.

1. Consider public comments when finalizing Enterprise Capital Framework. As FHFA notes in its discussion of challenges to achieving the new strategic goals, finalizing and implementing a new regulatory capital framework rule for the Enterprises is a key step in achieving Strategic Goals 1 and 2. FHFA states, "The re-proposed rule increases the quantity and quality of the Enterprises' regulatory capital and mitigates pro-cyclicality." NAHB reiterates our public comment that FHFA must carefully balance its safety and soundness goals in the proposed rule with the Enterprises' affordable housing mission. Likewise, FHFA must include provisions in the rule to mitigate pro-cyclicality for multifamily financing. Because so many aspects of Strategic Goals 1 and 2 depend on a workable Enterprise Capital Standards regulation, FHFA must carefully address the many valid concerns raised during the public comment process before finalizing this rule.

2. Include an assessment of the Enterprises' credit risk transfer (CRT) program. The CRT program is a significant housing finance system reform that is not mentioned in the Strategic Plan. The program was established in 2013 to transfer credit risk on the Enterprises' purchased single-family mortgage loans to investors and prevent the Enterprises from needing another bailout by taxpayers. Since then, the program has expanded and become a core part of the Enterprises' single-family business and also has been instrumental in encouraging investors to reenter the mortgage markets following the Great Recession. The current economic crisis caused by the coronavirus pandemic has provided the first major test of how the CRTs will perform as risk management tools for the Enterprises in a market downturn. Rather than be left out of the Strategic Plan, NAHB recommends CRTs be included as a housing finance system reform that should be evaluated after this economic crisis and considered for a continued role in managing the credit risk of the Enterprises. The Treasury's Housing Reform Plan calls for FHFA to continue to support efforts to expand these programs. In addition, FHFA should continue to encourage the Enterprises to look for additional, innovative ways to reduce Enterprise risk exposure.

3. Include appraisal reform. NAHB believes that accurate appraisals are essential to a healthy and sustainable housing finance system. Yet, appraisals remain a challenge for the housing industry. Members of NAHB continue to identify impediments that hamper appraisers' ability to provide accurate valuations of residential real estate. The current appraisal system is impaired due to inconsistent and conflicting standards and guidance; inadequate and uneven oversight and enforcement; a shortage of qualified and experienced appraisers; and, the absence of a robust and standardized data system. NAHB believes these problems must be addressed. This can only be accomplished through sound and standardized valuation practices, policy, and procedures that produce more credible valuations under all economic circumstances. NAHB appreciates the efforts taken by Fannie Mae and Freddie Mac to modernize their appraisal process and update the uniform appraisal dataset. NAHB has been a leading advocate for improving the valuation process and believes that better data and a workable Reconsideration of Value (ROV) process is critical to achieving this goal. In addition, the cost approach to value should be used to evaluate newly constructed homes. FHFA should include appraisal reform in its strategic plan and elevate the issue to a top priority.

4. Include an avenue for supporting a secondary market for acquisition, development and construction (AD&C) loans. To fully foster CLEAR national housing finance markets, as described in Strategic Goal 2, NAHB asserts that FHFA should acknowledge the importance of reliable AD&C financing for home builders and developers by allowing the Enterprises to purchase AD&C loans from community financial institutions. NAHB's Quarterly Survey on Financing for AD&C indicates that commercial banks and thrift institutions are the major source of

financing for home builders. The survey indicated that credit continued to become tighter in the second quarter of 2020, even at a time of increased demand for new housing. The ways that lenders are "tightening:" they are not making new loans, they are pulling back because of coronavirus concerns, they are lowering loan-to-value or loan-to-cost, or they are reducing the amount they are willing to lend. Home builders must have access to a consistent source of credit in order to meet the housing needs of this nation's families.

Conclusion

The Strategic Plan demonstrates FHFA's commitment to the core mission of the Enterprises to serve as a reliable source of liquidity to the housing finance system. FHFA is clear in its desire to make certain the Enterprises accomplish their mission in a manner that ensures they remain financially safe and sound and execute strategies that efficiently and effectively utilize technology systems and encourage employee engagement.

Thank you for your consideration of NAHB's comments. If you have questions, please contact Becky Froass, Director, Financial Institutions and Capital Markets, at 202-266-8529 or rfroass@nahb.org.

Sincerely,

Jessica R Lynch

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