October 22, 2021

Federal Housing Finance Agency
Office of the Director,
400 7th Street SW, 10th Floor,
Washington, D.C. 20219.

RE: AHA Response to the RFI on Enterprise Equitable Housing Finance Plans

Dear Director Thompson,

Thank you for this opportunity to share our insights to aid the Federal Housing Finance Agency's (FHFA) review of the three-year Equitable Housing Finance Plans that describe each of the Enterprise's planned efforts to advance equity in housing finance.

AHA's input on how FHFA can advance the causes of reducing the inequity in the housing market is focused on three themes:

1. Better policies on credit scoring and modeling.

2. Reducing the costs of getting an Enterprise-guaranteed mortgage.

3. Using all available levers to increase the inventory of homes available for purchase by owner-occupants.

About America's Homeowner Alliance: America's Homeowner Alliance (AHA) is here to give a unified voice to perhaps the most diverse underrepresented group among us today – America's current and future homeowners. America's Homeowner Alliance is poised to demand change from politicians and other policymakers to ensure that homeownership is the foundation of the American Dream. AHA has established collaborative relationships with highly influential like-minded industry, consumer, civic, and diverse segment organizations for the single purpose of protecting and promoting sustainable homeownership for all segments of America.

Summary of Responses*:* The following points are emphasized in AHA's responses to the direct questions asked in the Request for Input, which reflect AHA's view on what will best serve the nation's existing and aspiring homeowners.

From the RFI**: "6. What constitutes a "meaningful" action, and what kinds of meaningful actions should be taken by the Enterprises under their plans?"**

The Enterprises can take at least three categories of action to improve conditions for current and aspiring homeowners.

(1) Credit Modeling and Scores:

The FHFA should review the Enterprise's execution of their charter responsibilities to periodically review, validate and approve credit score models. [1]. Specifically, AHA believes the Enterprises must holistically reform the current process for the vetting and inclusion of scientifically sound credit score models. Modern credit score models that reflect this generation's use of credit will create an opportunity for sustainable homeownership for many creditworthy borrowers, particularly among borrowers of color. According to one alternative credit model company, VantageScore, using their model would result in 10 million new consumers being considered "creditworthy" and potentially mortgage-ready with a credit score of at least 620. Of that 10 million consumers, at least 2.4 million are African Americans and Hispanics. [2]. These numbers mean that millions of creditworthy borrowers are being shut out by non-transparent and antiquated methods of assessing credit while solutions are readily available in the market. AHA appreciates that vetting can take time, but today's policies and procedures are excessive and seem overly conservative. More importantly, they seem particularly biased towards the status quo. AHA recommends a review of the credit model and scoring policies and procedures to determine a more expedited but thorough periodic review.

Second, the process for approval of companies like VantageScore is skewed to favor the non-transparent and proprietary systems that have been developed with older credit models and the Enterprises' proprietary models. The Enterprises' models are not available to the public, which harms prospective homebuyers. A commercially available model is needed. It is not enough to take the credit factors like rental history into account when the scoring system remains a mystery in the GSE automated underwriting systems. Aspiring homeowners deserve to know when they are creditworthy and have the opportunity to check on their progress towards their goal using the same evaluation rubric the Enterprises will use to price their loan. AHA strongly advocates that any credit scores or credit models are commercially available to the public so that aspiring homeowners have the benefit of access to their score and approval criteria at any time.

(2) LLPA Reductions:

The Enterprises are over-charging consumers for the risk of default, particularly if they have modest-sized downpayments (less than 20 percent). Through FHFA policy and their own bias, the Enterprises are double and triple charging for the same risk of borrower default covered by private mortgage insurance. The Enterprises do this through exorbitant loan-level price adjustors (LLPAs) and expensive capital and liquidity requirements for private mortgage insurance (statutory requirements on all low-downpayment loans). It is time to reduce the punitive LLPAs and re-examine the capital framework that governs private mortgage insurance in light of the actual threat to safety and soundness that borrowers with low downpayment pose to the Enterprises. Taken in combination, the Dodd-Frank reforms and the prevalence of credit risk transfer options significantly reduce the threat to the Enterprises sustainability posed by low downpayment borrowers. It is time that the FHFA examines the pricing structures it recommends to the Enterprises and ensures they are commensurate with the fees the Enterprises charge. AHA strongly believes that after such a review, LLPAs should and could be significantly reduced for low downpayment loans.

A second way that LLPAs can sustainably be lowered is through broader adoption of reimbursable housing counseling. It is time to offer more mortgage products where housing counseling is a reimbursable expense- particularly for first-generation homebuyers. We know the benefits of pre-purchase housing counseling to the borrower, the lenders, and the ultimate MBS investor. In 2013, Freddie Mac studied the performance of loans with housing counseling and those without counseling. It discovered that counseling reduced the delinquency rate of first-time homebuyers by 29 percent. Furthermore, the study estimated that the dollar benefit of counseling's reduction in delinquency rates was worth about $1,000 Freddie Mac. [3]. Moreover, this $1000 benefit more than compensates most economically delivered methods of pre-purchase counseling, which averages a cost of about $500 or less. AHA strongly supports the wider adoption of LLPA discounts for borrowers who take advantage of pre-purchase housing counseling.

(3) Addressing Inventory Shortages:

The Enterprises have several but limited levers to pull to address crisis-level inventory shortages for first-time buyers.

First, the Enterprises should create a more robust "First-Look" program for owner-occupants that eliminates the advantages that bulk buyers and all-cash offers get in selling REO properties. Currently, all-cash investors are crowding out owner-occupants in this competitive housing market. Conditions are expected to worsen in the post-pandemic and post-forbearance markets.

The Enterprises' prior attempts to use their market power to increase opportunities for owner-occupants in distressed bulk sales were less successful than anticipated. The so-called "first look" programs were the predominant tool that allowed community groups to bid on smaller pools of homes. The effort involved in maintaining multiple, scattered-site, vacant, and abandoned properties was too great for existing community entities.

As forbearance opportunities expire and loss mitigation efforts go into overdrive, market analysts predict a significant number of forced sales, foreclosures, or other property disposition actions on loans within the Enterprises' stock. This poses a substantial risk of these properties being lost to investors to the further disadvantage of would-be owner-occupants in the competitive housing market.

Investors can often offer faster closings and waive any contingencies, which puts them at a significant advantage in the bidding process over modest means of owner-occupants who require financing. AHA proposes that any property for which the Enterprises' control loss mitigation and ultimate sale, that the Enterprises eliminate the inherent advantages of the all-cash investor buyer by requiring standard closing times (60 days) and prevent the waiver of common contingencies.

Last, the GSEs have a construction-to-permanent financing program (C-to-P) that is massively underutilized. It presents benefits over the FHA 203(k) program because it is not limited to non-profits. Still, other significant hurdles exist to its wide adoption by homebuilders of homes in the "affordable" range. For example, non-detached condominiums are not eligible for this kind of financing. [4]. The FHFA should encourage GSEs to review, revamp and reform their C-to-P programs, including creating expediencies for modestly priced homes.

Summary of Recommendations in Response to Question 6:

The following "meaningful actions" are immediately available to the FHFA to address inequity in the housing market:

1. Review, Reform, and Implement Better policies on Credit Scoring and Modeling.

1.1. The FHFA should examine the Enterprises' credit model periodic review and validation process and policies to reduce the time and barriers to entry for scientifically sound modeling that significantly improves the ability of people of color to qualify for mortgages

1.2. The FHFA should require that any credit modeling or score be commercially available so that aspiring homeowners can know the score that will be used for credit decisions, regardless of their mortgage application status.

2. Reduce the costs of getting an Enterprise-guaranteed mortgage.

2.1. The FHFA should review the LLPA policy to ensure that it is not double and triple charging low downpayment borrowers for the risk of default.

2.2. The FHFA should encourage the Enterprises to offer more products that compensate housing counselors for their services and reduce the fees charged to consumers who voluntarily undergo pre-purchase housing counseling.

3. Using all available levers to increase the inventory of homes available for purchase by owner-occupants.

3.1. The FHFA should encourage the Enterprises to expand "first look" programs for owner-occupants and reduce the inherent inequality of the bids by eliminating all cash buyers' advantages of quick closing and waived contingencies.

3.2. The FHFA should encourage the Enterprises to review each of their C-to-P programs, particularly on the issue of condominiums, to permit greater use of the product for affordable home construction to owner-occupants.

We would be pleased to address any questions you and your staff may have regarding our comments.

Sincerely,

Tino Diaz
Managing Director
America's Homeowner Alliance

[1] See 12 U.S.C. 1717(b)(7)

[2] See "Credit Invisibles Fact Sheet" VantageScore. 23 March 2021. Available here: https://vantagescore.com/education/blog/credit-invisibles-fact-sheet

[3] See Avila, Gabriela; Hoa Nguyen; Peter Zorn. "The Benefits of Pre-Purchase Housing Counseling." Working Paper. 12 April 2013. Available here: https://sf.freddiemac.com/content/_assets/resources/pdf/fact-sheet/benefits_of_pre_purchase.pdf

[4] See "Fannie Mae: F.A.Q.s: Construction-to-Permanent Financing." 7 August 2019. Available at https://singlefamily.fanniemae.com/learning-center/originating-and-underwriting/faqs-construction-permanent-financing