Enterprise

October 25, 2021

Ms. Sandra Thompson
Acting Director
Federal Housing Finance Agency
Office of the Director
400 Seventh Street, SW Room 10276
Washington, DC, 20219

RE: Equitable Housing Finance RFI

Dear Acting Director Thompson:

Enterprise Community Partners appreciates the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA's) Request for Input (RFI) regarding Fannie Mae and Freddie Mac's (collectively, the Government Sponsored Enterprises, or GSEs) required Equitable Housing Finance (EHF) Plans, which, once developed, will describe their intentional efforts to advance racial equity in the housing finance system. The EHF Plan Framework designed by FHFA for the GSEs has the potential to effect systemic changes, led by meaningful GSE actions to advance equity in the homeownership and rental markets, and wholly consistent with obligations to maintain the GSEs' safety and soundness. We welcome the opportunity to provide feedback on FHFA's approach to EHF as the GSEs begin developing their respective EHF plans, and we are pleased to see FHFA's commitment to incorporating public input and feedback on plans and progress reports on an ongoing basis. This step by FHFA parallels Enterprise's movement to prioritize racial equity as a primary goal within our nation's housing system and to advance economic mobility as an engine for securing equitable futures.

Enterprise is a national nonprofit on a mission to make home and community places of pride, power and belonging for all. To make that possible, we operate the only organization designed to address America's affordable housing crisis from every angle: we develop and deploy programs and support community organizations on the ground; we advocate for policy on a nonpartisan basis at every level of government; we invest capital to build and preserve rental homes people can afford; and we own, operate and provide resident services for affordable communities. All so that people not only make rent, they build futures.

Enterprise is organized around three central goals: to increase housing supply, advance racial equity and build resilience and upward mobility. To achieve these goals, we operate across three divisions – Solutions, Capital and Communities – that unify and leverage a family of companies together to execute our work. With our end-to-end approach, 40 years of experience and thousands of local partners, Enterprise has built and preserved 793,000 homes, invested $61 billion in communities and changed millions of lives.

We bring together public and private resources to create strong neighborhoods of opportunity for low- and moderate-income (LMI) people and strive to make home and community places of pride, power and belonging, and platforms for resilience and upward mobility for all. As part of our end-to-end approach, we have a controlling interest in Bellwether Enterprise, through which we also provide access to conventional mortgage products. Bellwether Enterprise is a Fannie Mae Delegated Underwriting and Servicing (DUS) Lender and Multifamily Affordable Housing Lender, a Freddie Mac Program Plus Seller Servicer and Targeted Affordable Housing Lender.

To provide an example of our commitment to advancing racial equity in the housing finance sector, which may also serve as a guide to the GSEs of what is needed and what is possible, we call attention to our Equitable Path Forward initiative – a five-year, $3.5 billion investment to help dismantle the legacy of racism in housing – that will support Black, Indigenous, and People of Color (BIPOC) and other historically marginalized housing providers by:

- Filling the capital gap created by decades of systemic racism;
- Strengthening providers through advisory services and other nonfinancial support; and
- Creating new career pathways to diversify leadership in real estate.

We commend FHFA's efforts to ensure that the Enterprises' fulfill the purposes of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 ("Safety and Soundness Act"), so that they continue to accomplish their public mission: "to facilitate financing of affordable housing for low- and moderate-income families consistent with their public purposes, while maintaining a strong financial condition and a reasonable economic return."

We also commend the FHFA for fulfilling its duty to affirmatively further the purposes of the Fair Housing Act, as well as the President's January 2021 Executive Order 13985, "Advancing Racial Equity and Support for Underserved Communities Through the Federal Government," which provides that "the Federal Government should pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality."

Before turning to the specific set of questions posed in the RFI, we note that the mandatory components of the EHF plans as described in the RFI could potentially be met entirely through increasing BIPOC homeownership, with attention paid to underserved and formerly redlined areas. We urge FHFA to consider any EHF plan to be incomplete if it fails to address the persistent challenges related to housing access, affordability, and quality faced by BIPOC individuals and families who rent. Much as the Duty to Serve regime allows the GSEs some flexibility in choosing from a list of activities within a category but does not allow them to skip an entire category, we urge FHFA to adopt a similar approach with respect to the GSEs' single family and multifamily businesses. As such, FHFA should establish a minimum number of single family and multifamily activities for the GSEs to select from the non-exclusive list of optional objectives and allow the GSEs to propose additional EHF objectives in either category.

Below please find our responses to the questions posed by the FHFA in consideration of the Enterprises' forthcoming Equitable Housing Finance Plans:

1. ***How should measurable goals be selected and set by the Enterprises? For example, is pursuing a small set of focused goals or a wide portfolio of goals better?***

Given the short period of time between the close of the RFI and the deadline for the GSEs to submit EHF plans, we recognize that the first iteration of the EHF plans may only include a smaller set of actionable items that can be carried out today using existing tools and programs. Looking beyond the initial rollout of the EHF activities, however, the first plans should also lay out areas for further research and product development, much the same way that Duty to Serve plans incorporate both specific targeted activities as well as support for development of a more robust system overall. With that in mind, the GSEs should identify a broader portfolio of activities to be accomplished in the second and third years. Likewise, we particularly are heartened by the fact that the three-year EHF plans are not intended to be set in stone on day one but will see iterations evolve over the course of the three years, based on reported metrics and stakeholder input.

In short, addressing the legacies of discriminatory housing finance policies and practices will require a wide set of activities, but we recognize that initial efforts may only yield incremental progress. Nonetheless, it is important for FHFA to send clear signals to the GSEs that the scope of EHF plans and the performance targets will both expand over time.

2-4. What data, information, or analyses would be helpful for the Enterprises to consider or use to support their plans? How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions to sustainably address the racial and ethnic homeownership gap? How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions for formerly redlined areas? How should such areas be defined?

In developing their EHF plans, the GSEs should establish a current baseline of activity for planned objectives. The baselines should include analyses of current flows of capital, identifying where their financing goes and who is accessing it. Moreover, the analyses should not only assess how well GSE activities reflect the overall housing market, but specific to the persistent problems of underserved markets (defined both demographically and geographically), the plans should also assess how their current roles in the market reflect the demographics and housing stock of the nation at large. These analyses should serve as a foundation upon which to identify gaps and support plan objectives.

Care should be taken not to conduct a simple market share analysis, the goal of which might simply be to grow the GSEs' respective businesses for their own sake; rather, the analysis should be conducted in a manner that highlights inequities in the housing finance system, such that the GSEs can bring their valuable market-making powers to bear on creating sustainable housing opportunities for historically underserved races and ethnicities and communities historically excluded from access to fairly priced housing finance—as a matter of explicit practice or implicit policy. As such, plan objectives and performance assessments should disaggregate data by race and ethnicity to better identify disparities that currently exist and measure progress towards eliminating them.

In addition to an outward-looking assessment of EHF needs and market conditions, a crucial component of developing the EHF plans should be to conduct an internal business process review to identify ways in which current policies and practices have the effect of perpetuating the racial and ethnic homeownership gap, discouraging investment in quality affordable housing in redlined or other underserved communities, and limiting wealth-building opportunities for long-time residents of those communities.

Because the country's equitable housing finance needs are so extensive, quantitative analysis alone is likely to be insufficient for setting EHF plan priorities. As such, the plans should be informed by consultations with underrepresented groups, communities, and other stakeholders to best determine how to maximize impact.

We strongly believe the analyses should be published as part of the plans so that stakeholders and policymakers alike can appropriately evaluate the plans' scope, priorities, objectives and targets.

5. What other objectives and measurable goals should the Enterprises pursue in their plans?

As discussed above, we believe that the EHF plans should include separate objectives for the multifamily and single-family business lines within the GSEs. We also call attention to the substantial number of renters living in homes financed through the single-family channel and seek to ensure that EHF plans include objectives that advance equity for renters and BIPOC owners of 1-4 unit homes.

Multifamily business lines can advance progress on entrenched issues of equity by addressing the foundational elements of housing affordability and stability and targeting transformative possibilities for economic mobility. Each of the GSE plans should articulate methods to end practices and legacies of redlining, racial discrimination, and broader racial inequality in the housing market. This would allow BIPOC individuals and families to rent affordable, high quality homes in communities across the country, unimpeded by consideration of their race or any prior racially biased practices.

The plans should place emphasis on increasing sustainable housing opportunities for renters living in multifamily properties financed by the GSEs. Steps toward this goal should (at a minimum) include prohibiting source of income discrimination by mandating the acceptance of Housing Choice Vouchers and other assistive resources, providing other tenant protections designed to minimize evictions, requiring reporting of on-time payments to credit bureaus, and facilitating accessibility for persons with disabilities. Product features designed to increase resident stability should be paired with extensive outreach to lenders and borrowers to ensure compliance.

The GSE's should incentivize multifamily operators to expand capacity and quality of services and supports that can help to advance resident stability and upward mobility. Corporate funds can also be set aside to support borrowers seeking to offer resident services in addition to offering pricing incentives that would offset some of the cost of providing those services.

While closing the racial homeownership gap is one mechanism for addressing the racial wealth gap, another shameful legacy of economic exclusion based on race and ethnicity, homeownership should not be the only way to build assets. EHF plans should explore and pilot programs to facilitate renter wealth building. The wealth building could take place for residents during their tenancy and through the process of moving into homeownership for those who choose that option. Relatedly, many renters have thin credit files or derogatory credit histories because their on-time rent payments are not reported to credit bureaus; as a result they may face higher costs for or lack access to other financial products such as auto loans. EHF plans should explore the benefits of on-time rent reporting for residents' finances as well as the knock-on effects for the property.

Another critical portion of the EHF plans is affordable housing preservation. Historically marginalized communities have lacked capital (and sometimes market pressure) to maintain properties, while lower-priced rental homes are often older and in poor condition. Yet, current market conditions make it nearly impossible to complete capital improvements while meeting profit needs and maintaining affordability.

The GSEs should explore tools to address this multifaceted challenge as a primary activity designed to reverse decades of underinvestment in the stock of unsubsidized rental homes in multifamily buildings.

The GSEs should also secure small-balance loans available to support small and medium multifamily (SMMF) buildings (defined as 2-49 unit properties) for which there are few national financing products. Many traditional tools for affordable housing development, such as the Low-Income Housing Tax Credit, favor larger properties and new construction or deep rehabilitation. Depending on property conditions, four percent tax credits may not be enough to fund capital needs and typically require a larger deal to be financially feasible. Meeting a lender’s loan-to-value requirement can pose another barrier for underwriting purposes, when capping rents at affordable levels. SMMF properties comprise nearly half of the nation’s rental housing and are home to the majority of low-income households. Expanding the array of financing tools available for SMMF housing can preserve the supply of affordable homes in a vital segment of the rental market using the GSEs single-family and multifamily channels.

In redlined, racially and ethnically concentrated areas of poverty, and other underserved and undervalued communities, CDFIs and Minority Depository Institutions (MDIs) offer essential financial backing for affordable housing. The GSEs should increase access for these lenders to ensure that housing capital consistently reaches and benefits communities often left out of the financial mainstream.

With respect to single-family business lines, one of the priorities already incorporated in the EHF plans is for the GSEs to work to narrow racial and ethnic gaps in homeownership rates. Disparities in the share of households that own their homes contribute significantly to inequities in asset development and intergenerational wealth transfers. The causes of these gaps are numerous and have compounded over time, so any steps taken to narrow them must also be multi-faceted and focus on undoing structural barriers to homeownership. These include addressing biases in home appraisal processes that lead to undervaluation of properties owned by and/or located in neighborhoods with populations that have historically faced discrimination and disinvestment. Appraisal models that rely heavily on past valuations and neighborhood comparables, as well as subjective assessments such as perceptions of neighborhood safety and amenity levels, serve to further biases built into past decisions and reduce the opportunity for owners of such properties to realize higher values that are more reflective of current conditions.

As part of their EHF plans, the GSEs should require appraisers to use more objective metrics to appraise properties. The GSEs should also offer leniency with respect to second appraisals performed when bias or undervaluation may have occurred, for example, by taking an average of appraised values rather than requiring the lower one be considered in underwriting decisions.

Biases built into other parts of the underwriting process are also factors in perpetuating racial and ethnic homeownership gaps. The GSE’s should incorporate into their EHF plans options for loans made to borrowers with inconsistent but adequate incomes, such as the self-employed, contract workers, and others with unconventional employment and earnings patterns. Such options should not require manual underwriting that might disincentivize originators from making such loans, but rather be incorporated within more flexible automated underwriting systems. Other changes to underwriting that should be encouraged by the GSEs include greater acceptance of loans involving multiple borrowers who pool resources to cover down payments and monthly expenses, which is more common among low-income borrowers from certain cultures. Perhaps as part of their plans, the GSEs could stand up a pilot program to study the specific challenges facing multi-guarantor loans, as well as assessments of their performance over time, to demonstrate how such loans may be made more feasible.

It is important to clarify, however, that owner-occupied homes are not the only properties whose loans the GSEs support through the single-family channel. Both single-family rental and 2-4 unit properties are included within this business line, often providing a vital source of rental housing to communities while also building wealth for their owners. The GSEs can encourage greater investments in these types of properties through their EHF plans, while also offering more stability to both owner- and renter-occupants.

For example, the GSEs can support underwriting of loans that prioritize owner-occupant landlords of 2-4 unit properties, which helps such owners acquire their own home while also providing a source of income to offset mortgage costs. Such owners are generally better stewards of their properties, which ensures both that property values are maintained/increased and that renters receive quality residences. These owners are also more likely to develop relationships with renters, and may offer more flexible lease and payment terms to renters in need, which facilitates greater housing stability.

The GSEs may also support loans on single-family properties that have or seek to add an accessory dwelling unit (ADU), which provides similar benefits to owners and renters as 2-4 unit properties. Such additions may also increase the value of properties in traditionally disinvested communities, helping to rectify biases of past appraisals and other discriminatory practices. Finally, the EHF plans should require owners of rental properties with loans backed by the GSEs to provide certain tenant protections, similar to the recently announced minimum 30-day notice on evictions for non-payment of rent.

More generally, the GSEs should also examine past programs developed to support underserved segments of the housing market, which may be good candidates for revival or expansion under the EHF plans. These could include programs that failed to consider structural barriers to success in the past, were implemented on too small a scale to show success, or that required strict underwriting or appraisal practices that perpetuated racial and ethnic biases. As part of the first iteration of EHF plans, the GSEs should each complete a thorough review of past efforts to expand access to housing finance with an eye towards reinstituting those that could be readily adapted to meet the EHF objectives.

We also note the importance of flexibility in designing and deploying products to reach people and places who have historically been excluded from the GSEs' books; as such, we strongly encourage FHFA to make it easier for the GSEs to introduce new products under these efforts.

Finally, the EHF plans should require the GSEs to fully incorporate FHFA's approach to climate resilience; as an additional benefit, they can provide valuable data that may inform FHFA's supervisory activities and other interagency efforts to address climate risk. Recognizing that investments in housing infrastructure are intended to last for decades, homes and communities must meet both current and future needs while taking considerations of greater resilience and equity into account. The GSEs' role in equitably facilitating decarbonization and fostering a sustainable built environment should also be explored in the context of developing EHF plans. Doing so will also foster greater housing stability and wealth building, as residents of such properties are less likely to be involuntarily displaced or suffer catastrophic value loss as a result of a natural disaster.

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

Without delving into the semantics of "meaningful," we suggest that the types of actions be assessed by their impacts. To that end, we expect plans to incorporate new products, policy changes on existing products, expanding originator networks to better serve underserved people and places, and research to assess needs and opportunities or to facilitate future product development. The actions proposed should be linked back to the analyses that we believe should be published as part of the plans. (See our response to questions 2-4, above.)

7. How can the Enterprises and FHFA ensure that actions taken under the plans provide sustainable housing opportunities and are consistent with safety and soundness?

If well designed, the plans should feature activities central to the obligation to fulfill the GSEs' mission and charter obligations to provide liquidity to mortgage markets and support affordable housing. To the extent the EHF plan objectives include expanding the footprint of existing activities with known risk profiles, there should be few safety and soundness concerns. Moreover, there are many successful examples of sustainable homeownership strategies that could serve as models for assessing risk of proposed activities. Similarly, the objectives we identify for renters and rental properties are also designed to strengthen the financial positions of the properties and family balance sheets and budgets.

It should be recognized that while the scope of equitable housing finance challenges potentially being addressed is large, the magnitude of pilot programs tends to be quite small and pose *de minimis* risk even if the pilots experience unintended and outsized losses. We would also encourage a more holistic approach to examining the actions proposed under the plans, capturing the social benefits of addressing long-standing disparities in the housing finance system as well as positive impacts on the GSEs' existing books of business by ensuring that sustainable housing opportunities are equitably available.

8. What should FHFA consider in overseeing the Enterprises' plans? Should FHFA provide a rating or some other public assessment? If so, how should the plans be assessed?

FHFA should release data on progress toward objectives, including geography-specific information, where appropriate. FHFA should also provide guidance on what the implications of failing to reach or make progress towards objectives might be.

9. How should the plans interact with Duty to Serve, Housing Goals, or other requirements?

The EHF plans should identify where there is continuity with multiple housing objectives under Duty to Serve, Housing Goals, or other requirements. Inclusion of previously planned activities under DTS or the housing goals is reasonable, if those activities' targets are either scaled up or have a narrowed focus on specific geographies not already identified in other requirements. As such, EHF objectives can and should leverage existing products to facilitate housing capital flows to underserved people and places. Likewise, future DTS plans should reference the EHF objectives. FHFA might also consider a consolidated EHF/DTS planning cycle to more expansively and comprehensively address underserved markets.

11. Are there additional or different required objectives and goals that FHFA should consider for future Enterprise plans?

We recognize that the largely concurrent RFI comment period and the GSEs development of their plans in advance of their end-of-year submission deadline means that the first iteration of EHF plans will likely draw from the list of objectives and goals found in the RFI, despite their non-exhaustive nature. We have suggested a range of additional objectives and goals for consideration above and encourage their inclusion in future plans, including annual updates to the plans currently being developed. We wish to reiterate the importance of requiring objectives to address the needs of BIPOC renters in areas of concentrated poverty and in areas with access to educational, transportation, economic, and other important opportunities.

12. What communities and stakeholders should the Enterprises consult with in developing their plans?

In addition to consultation with subject matter experts, analysts, and current partners, the GSEs should also directly engage with representatives of underserved and redlined communities to understand their lived experiences, the ways in which the current system has perpetuated inequities and what a more equitable system could accomplish.

Again, thank you for the opportunity to comment on this important issue. Enterprise looks forward to working with FHFA, Fannie Mae, Freddie Mac and our partners across the country to dismantle the legacy of racism in housing.

If you have any questions about any of the above comments, please contact me directly at ajakabovics@enterprisecommunity.org.

Sincerely,

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Enterprise Community Partners, Inc.