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Office of the Director
Federal Housing Finance Agency
400 7th St., SW
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Washington, DC 20219

RE: Request for Input — Equitable Housing Finance Plans

The Community Home Lenders Association (CHLA)[1] appreciates this opportunity to comment on the Equitable Housing Finance Plans FHFA is requiring Fannie Mae and Freddie Mac (the Enterprises) to develop and submit.

CHLA is very appreciative of the steps FHFA Acting Director Thompson has taken to promote equitable housing and sustainability and improve access to mortgage credit. These include expansion of the ReFiNow and ReFiPossible programs, limiting the Common Securitization Platform to use by the Enterprises, making desktop appraisals a permanent valuation option, and most significantly, suspending the January PSPA loan and cash window restrictions.

CHLA makes the following recommendations to continue and expand these efforts:

1. Permanently repeal the PSPA loan and small lender restrictions

FHFA's recent action, with Treasury, to suspend and the PSPA restrictions on "higher risk" loans and investor and second home loans and on cash window use was **the most important** near-term action FHFA could have taken to promote access to credit and equitable housing.

Accordingly, we urge FHFA and Treasury (1) to permanently repeal the loan restrictions as soon as possible and (2) before the end of the year, to either repeal the cash window limits or set them at a more reasonable level, such as $5 billion for each Enterprise.

[1] CHLA is the only national trade association exclusively serving small and midsized independent mortgage bankers (IMBs) – community-based lenders whose sole business is originating and servicing mortgage loans. More information about CHLA is available at communitylender.org.

2. Recalibrate credit standards and improve transparency

We recommend the Enterprises' plans should explicitly include review and recalibration of their credit standards to ensure they are maximizing their ability to purchase loans made to low- and moderate-income, minority and underserved families, consistent with sound underwriting and safety and soundness. Our member IMBs noticed a general tightening of Enterprise credit standards for loans with two or more "higher risk" characteristics beginning about a year ago, and the tightening became more prevalent after caps on such loans were imposed by the revised PSPAs. Enterprise purchases of such loans are a necessary element of increasing housing equity, and a review of the credit boxes for these and other loans should be undertaken expeditiously.

Additionally, we recommend the Enterprises' plans include increasing the transparency of feedback from their automated underwriting systems (AUS). Earlier this year, CHLA brought to the Enterprises' attention concerns from our IMB members about apparent tightening of the Enterprises' credit standards, as evidenced by feedback received from their automated underwriting systems, without sufficient explanation to lenders. The AUS "black boxes" greatly limit the ability of lenders to discern the reasons for these changes. We believe increased transparency would help lenders more effectively and efficiently underwrite and submit loans meeting Enterprise standards, thereby helping increase housing equity, while ensuring a smoother origination process for borrowers.

3. Apply G Fee parity to mortgage insurance and convert MI pilots

The January PSPA provision that made informal FHFA G Fee parity policy permanent was a critical action to promote equitable housing. G Fee parity ensures a level playing field for smaller lenders – which ensures that its borrowers have equitable access to Enterprise loans. There are two important actions which FHFA and the Enterprises should take to fully implement this provision.

First, FHFA should apply the G Fee Parity requirement to Mortgage Insurance (MI) that is a part of Enterprise loans. Some MI companies are providing large lenders volume discounts on MI coverage of loans sold to the Enterprises. As MI is an inherent part of the Enterprise loan, MI volume discounts have the same pernicious consumer impact as G Fee volume discounts - they harm equitable access for smaller lenders and the borrowers they serve.

Accordingly, FHFA should prohibit the Enterprises from purchasing mortgages with MI coverage that is priced based on a lender's size, business volume or charter type. CHLA has previously provided FHFA with extensive legal and policy justifications for such action.

Second, FHFA should convert the Enterprises' longstanding MI pilots (Fannie Mae's EPMI and Freddie Mac's IMAGIN) into permanent authority to directly place MI coverage, which could reduce the cost of MI to borrowers by up to 30 percent. Under the traditional MI model, lenders place MI coverage on loans they sell to the Enterprises. A substantial portion of the cost structure of traditional MI companies comes from sales and marketing efforts aimed at selling coverage to lenders. With the Enterprises directly placing coverage, the cost savings from the overhead can be passed onto borrowers. For a typical loan with 5 percent down, this could mean $600-$800 in savings to a borrower each year.

4. Reduce Enterprise capital requirements

FHFA in 2020 implemented a capital rule that requires the Enterprises to build a very substantial amount of capital — more than $200 billion above their current combined capitalization.

While CHLA vigorously opposed the pernicious Profit Sweep and strongly supports recapitalizing the Enterprises, we share the concerns expressed by many community and housing groups that the amount of capital required in the final rule is excessive. Complying with the rule is likely to require the Enterprises to needlessly raise g-fees and loan level price adjustments (LLPAs), hindering their ability to promote the objective of equitable housing and harming access to affordable mortgage credit for lower income, minority and other underserved borrowers.

FHFA recently proposed modifications to the rule that would trim the required capital levels, better enabling the Enterprises to serve the market while ensuring sufficient capitalization. We support these changes.

5. Streamline new product approval rules

FHFA in 2020 proposed a revised process for reviewing new products by the Enterprises. CHLA supports ensuring that stakeholders have ample opportunity to review and comment on new products before FHFA approves their use. At the same time, we are concerned that the scope of the review process as proposed was too broad and could require review of even minor changes to existing activities and products.

Accordingly, we urge FHFA allow for streamlined review and approval of new and innovative products that help carry out the objective of equitable access.

6. Work with other stakeholders to increase the supply of housing

The most fundamental barrier to increasing housing equity is the growing lack of housing supply throughout our nation, especially housing affordable to low- and moderate-income families. The ability of the Enterprises, and the housing finance system as a whole, to directly address this supply shortage is limited.

The US housing market has long suffered from a shortage of housing supply, but it has become increasingly acute in recent years. Freddie Mac estimates that at the end of 2018, the US had a housing supply deficit of 2.5 million units, and this deficit ballooned to 3.8 million units by the end of 2020. The main driver of this deficit, according to Freddie Mac, has been a long-term decline in the construction of single-family homes, with a much sharper reduction in the construction of entry-level homes affordable to low- and moderate-income families. According to US Census Bureau data cited in the Freddie Mac study, construction of entry-level homes below 1400 square feet fell from more than 450,000 per year in the late 1970s to an average of 55,000 per year during the 2010s. As a share of new home construction, entry-level homes fell from 40 percent in the early 1980s to less than 10 percent today.[2]

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[2] "Housing Supply: A Growing Deficit," Freddie Mac Economic and Housing Research Note, May 2021. http://www.freddiemac.com/fmac-resources/research/pdf/202105-Note-Housing_Supply-08.pdf

Many reasons have been cited for the recent reductions in new construction, including land use regulation, zoning laws hindering construction in areas facing high demand, and shortages of construction labor and materials. Freddie Mac's study also points to a surge in demand driven especially by increased home purchases by Millennials at their peak home buying age, which is exacerbating the supply shortage.

Addressing the housing supply shortage requires significant public policy changes at not only the federal level but also at the state and local levels where land use and zoning regulations are made.

Accordingly, we recommend that FHFA work with the Enterprises and other stakeholders to determine whether federal housing policies, programs and activities (including Enterprise mortgage purchase standards and activities) can provide incentives or other means to encourage increased new home construction, particularly housing affordable to lower income, minority and other underserved families.

Thank you for the opportunity to provide comments.

Sincerely,

COMMUNITY HOME LENDERS ASSOCIATION