LINCOLN INSTITUTE
OF LAND POLICY

October 25, 2021

Ms. Sandra Thompson
Acting Director
Federal Housing Finance Agency
400 Seventh St., SW
Washington, DC 20219

Re: Response to the Request for Input on the Enterprises' Equitable Housing Finance Plans

Dear Director Thompson:

On behalf of the Lincoln Institute of Land Policy (LILP), I am pleased to submit comments on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on the Enterprises' proposed Equitable Housing Finance Plans. While LILP submits its own response to the "Equity in Housing" RFI, we also participated and concur in the comment letter submitted by the National Housing Conference.

The Lincoln Institute of Land Policy (LILP) is a nonprofit private operating foundation dating to 1946. LILP seeks to improve quality of life through the effective use, taxation and stewardship of land. Reducing poverty and addressing racial and spatial inequality are among our core goals.

LILP applauds FHFA for directing Fannie Mae and Freddie Mac to produce "equitable housing finance plans" by the end of 2021. However, to ensure that FHFA and the Enterprises accomplish real changes to increase racial equity, the Enterprises must propose concrete and achievable plans. FHFA is off to a good start by requiring that the Enterprises propose "objectives, measurable goals, and planned meaningful actions for … reducing the racial or ethnic homeownership gap and reducing underinvestment or undervaluation in formerly redlined areas that remain racially or ethnically concentrated areas of poverty or otherwise underserved or undervalued."

LILP is the convening member of the Underserved Mortgage Markets Coalition. In this coalition, we join 19 other leading affordable housing organizations for the express purpose of enhancing the tracking and transparency of Enterprise performance both in Duty to Serve and racial equity plans. We encourage FHFA, Fannie Mae and Freddie Mac to all collaborate with those of us in

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the Underserved Mortgage Markets Coalition to make it easier for stakeholders to understand the plans and the progress the Enterprises make toward achieving the plans.

To assist FHFA and the Enterprises in this process, we propose several concrete objectives:

Develop debias technology to decrease racial bias in the Enterprises' market analysis systems.
The Enterprises should develop a definition of model risk for their market analysis systems that use artificial intelligence ("AI") and Machine Learning ("ML"). This definition should include the potential for racial discrimination or inequitable outcomes for consumers as part of risk assessment and fair lending analysis, not just loss of money in the transaction.

Reduce racial or ethnic disparities in acceptance rates for the Enterprises' automated underwriting systems (AUS).
Each Enterprises should produce a report detailing racial disparities that are currently produced in its AUS. This report should compare acceptance rates by race/ethnicity when controlled for credit score and underlying risk factors, such as debt-to-income ("DTI") and loan-to-value ("LTV"). Once they have published their reports, each Enterprise should develop a strategy to address racial disparities in its AUS and improve underwriting requirements without increasing risk.

Develop a small dollar mortgage pilot program targeting homebuyers of color.
The Enterprises should each add an activity in which they create a small-dollar mortgage loan program that focuses on borrowers of color. This pilot should position the Enterprises to buy small mortgages that the market is not currently generating.

Develop pilot program(s) to increase awareness of and access to down-payment assistance (DPA), especially among black homebuyers.
The Urban Institute has demonstrated that "increasing the visibility of and access to down payment assistance will especially benefit young black homebuyers, who are less likely to receive parental support when purchasing a home than white young adults."[1] Working with accredited CDFIs, the Enterprises should each develop DPA programs to increase access to DPA for homebuyers of color in general and for homebuyers of color in rural areas.

Change credit scoring models to give homebuyers of color more access to mortgage credit.
Because black families are more likely than white families to have lower credit scores or thin or no credit files due to historical structural barriers to accessing banking and credit products, mortgage credit has become more difficult to obtain for black households.
Other than Fannie Mae's recent initiative to consider rental payments, the Enterprises' credit systems do not incorporate: rent, cell phone, and utility payments into traditional credit score models used for mortgage underwriting. The Enterprises should standardize the including non-

[1]McCargo, Alana; Choi, Jung Hyun; and Golding, Edward, "Building Black Homeownership Bridges: A Five-Point Framework for Reducing the Racial Homeownership Gap", (May, 2019).

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standard payment history in their credit scoring models and the underwriting process to help more black households access credit without increasing default probability.

Increase homebuyer education and counseling to young homebuyers of color.
According to research by Freddie Mac, there are currently 3.4 million "mortgage ready" black renters and another 2 million black renters who are "near mortgage ready". Furthermore, about 20 percent of black millennials are mortgage ready; more than 1.7 million black millennials in the 31 largest metropolitan statistical areas have homeownership potential, yet do not own a home.[2]

FHFA should require the GSEs to partner with local agencies to provide homebuyer education on every loan at or over 95% LTV. The Enterprises should develop and promote an expanded homebuyer education model to help make potential homebuyers of color buyer-ready earlier. The Enterprises can work with counseling agencies to help them "get ready" to be successful homeowners. This will take time, but it is well worth the effort – it is essential to help people of color buy homes earlier in life to accumulate more mortgage credit and property wealth. These Homebuyer Education programs need to be properly funded by the Enterprises and state HFAs. Fannie Mae's $500 LLPA paid to lenders for a counseled loan rarely filters down to the counseling agency.

Leverage balance sheets to buy non-conforming mortgages with a likelihood of success.
Fannie Mae should leverage its balance sheets to invest in pools of non-conforming mortgages. It is currently almost impossible for homeownership providers working with lower-income homebuyers and communities of color to access 20-year money, so they can pay off their loans more quickly. Fannie Mae would fill an important gap by investing in a low-income affordable mortgage pool, and enable providers to significantly expand their lending to first-time LMI homebuyers and communities of color.

Increase the supply of affordable, manufactured homes available to homebuyers of color.
Prior to former Director Calabria's tenure, both Enterprises spoke in some depth about their work to develop chattel pilots, which have the promise of standardizing and reducing the cost of one of housing that is often less expensive than comparable site-built housing. Chattel could make homeownership possible for lower wealth families who are currently unable to afford ownership. This could potentially to a great deal to address the racial wealth gap. There is also a great deal more that the Enterprises could do to make manufactured housing units titled as real estate more available to homebuyers of color.

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[2] Choi, Jung Hyun, Jun Zhu, Laurie Goodman, Bhargavi Ganesh, and Sarah Strochak. 2018. "Millennial Homeownership: Why Is It So Low, and How Can We Increase It?" Washington, DC: Urban Institute.

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FHFA Policy Changes are Prerequisite to Ambitious Enterprise Plans for Equity in Housing

The Enterprises must propose and execute meaningful and achievable goals to reduce the racial and ethnic homeownership gap and reduce underinvestment in or undervaluation of properties in communities of color. However, the Enterprises can't be expected to offer ambitious plans until specific DTS disincentives promulgated by the previous FHFA Director are rescinded. It is imperative that FHFA take these steps at once so that the Enterprises can produce ambitious DTS plans during 2021:

1. Promulgate an interim final rule that revises the capital regulation to encourage loan purchases in underserved markets and repeals antiquated loan level price adjustments on underserved markets. Make conforming changes to the preferred stock purchase agreements to address so-called "high risk loans".

2. Do not finalize the pending "new products" rulemaking and instead promulgate an interim final rule that encourages pilots, which are essential to reaching underserved markets and pose minimal safety & soundness risk.

3. Revise the investments legal interpretation to the plain meaning of the statute, which permits targeted equity investments to reach underserved markets and in fact considers this an evaluation factor in determining DTS performance. Clarify that the Enterprises are expected to include equity investments in their 2022-24 DTS and racial equity plans.

Conclusion

FHFA must act urgently to create a climate in which the Enterprises can produce ambitious Equitable Housing Finance plans. The Enterprises cannot produce meaningful plans to engage in areas that FHFA has previously made clear that they cannot. Additionally, the Enterprises must propose specific, ambitious plans that make tangible progress towards reducing the racial and ethnic homeownership gap and reduce underinvestment in and undervaluation of properties in communities of color.

Thank you for considering our views.

Sincerely,

George W. "Mac" McCarthy
President and CEO

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