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National Association of Federally-Insured Credit Unions

March 11, 2022

Clinton Jones
General Counsel
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

RE: 2022-2026 Strategic Plan

Dear Mr. Jones:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the draft strategic plan for fiscal years 2022-2026. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 127 million consumers with personal and small business financial service products. NAFCU commends the Federal Housing Finance Agency (FHFA) on its commitment to promoting sustainable and equitable access to mortgage credit and protecting the safety and soundness of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, as well as the Federal Home Loan Bank (FHLB) system (together, the regulated entities). NAFCU and its member credit unions appreciate the opportunity to provide further input on this draft strategic plan and generally support this as a roadmap for the FHFA. In order to achieve the goals in the draft strategic plan, NAFCU recommends that the FHFA use technology to aid in appraisal modernization, create and approve pilot programs to close the homeownership gap, and continue work with other regulators to address climate risk.

General Comments

The *Housing and Economic Recovery Act* of 2008 established the FHFA and placed the GSEs and FHLBs under its supervision. The FHFA's mission is to ensure that those entities are operating in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. As part of this, the FHFA has set out certain goals in its draft strategic plan for the GSEs and FHLBs. The plan contains the following broad goals and more specific objectives under each: (1) secure the regulated entities' safety and soundness; (2) foster housing finance markets that promote equitable access to affordable and sustainable housing; and (3) responsibly steward FHFA's infrastructure.

Strategic Goal 1: Secure the regulated entities' safety and soundness

NAFCU has long supported a strong regulatory and supervisory framework that protects the safety and soundness of the GSEs and FHLBs as credit unions rely on access to the secondary mortgage market for the liquidity they need to make more loans to their members. According to 2020 *Home Mortgage Disclosure Act* (HMDA) data, of the loans credit unions sold to the secondary market 67 percent were sold to the GSEs, the highest level since 2012. Accordingly, NAFCU supports the

FHFA's goal of promoting safe and sound operations at the GSEs and FHLBs, as it is crucial to the continued safety and soundness of the credit union system and protecting American taxpayers.

NAFCU supports the incorporation of climate change into the GSEs' governance and appreciates the FHFA's focus on improving climate data collection, analysis, and reporting, as well as evaluating the risks and effects of climate change on the housing finance system. This data-driven, research focused approach will allow the FHFA to gather the information necessary to determine the true extent to which the markets and the GSEs may be impacted by climate change risk. Regarding external impacts, NAFCU encourages the FHFA to continue to work with other regulators, including the National Credit Union Administration and others in the Financial Stability Oversight Council, on evaluating climate risk to ensure consistency across policies impacting mortgage servicers. The FHFA should adopt a risk-based framework for regulating and supervising the GSEs in the face of climate change and should avoid implementing any policies and requirements for the GSEs that will impede credit unions' ability to sell their mortgages as this may have a disproportionate impact on minority and low-income borrowers.

Strategic Goal 2: Foster housing finance markets that promote equitable access to affordable and sustainable housing

A. *Appraisals*

FHFA has a statutory obligation to ensure that the operations and activities of the GSEs and FHLBs foster liquid, efficient, competitive, and resilient national housing finance markets. NAFCU recommends that the FHFA promote efficiency and cost savings in the mortgage process by streamlining the appraisal process through modernization. During the pandemic, NAFCU's member credit unions have seen an increase in the price of appraisals. There is a lack of standardization between appraisers and throughout the appraisal process, and the effects of this are carried over to the borrower in terms of overall costs.

NAFCU supports alternative appraisal processes such as appraisal bifurcation, desktop appraisals, and exterior only appraisals. There is a need for consistent, reliable technology to simplify the appraisal process and make it more efficient. NAFCU suggests that the FHFA endorse technology developed to modernize the appraisal process, as well as new and emerging technology, as an alternative to traditional appraisals. Desktop appraisals proved to be much easier and just as accurate for NAFCU's member credit unions to utilize to facilitate mortgage lending. In light of this experience, now is the time for the FHFA and GSEs to consider additional improvements to the appraisal process through the utilization of technological advancements and capabilities.

Multiple studies have shown that biases in appraisals exist across the board. Freddie Mac[1] and Fannie Mae[2] have found that appraisal disparities exist for communities and borrowers of color. The Consumer Financial Protection Bureau and other federal regulators, including the FHFA, have

[1] *Racial and Ethnic Valuation Gaps in Home Purchase Appraisals* (September 2021). https://www.freddiemac.com/research/insight/20210920-home-appraisals
[2] *Appraising the Appraisal* (February 2022). https://www.fanniemae.com/media/42541/display

also acknowledged that appraisal discrimination plagues the mortgage market.[3] Appraisal reform is essential in order to address this widely recognized issue. The use of technology is a start to addressing appraisal biases. NAFCU also recommends that the FHFA work with the GSEs, other federal regulators, and The Appraisal Foundation to diversify the appraisal industry by expanding participation of people of color in the appraisal industry, update standards to root out bias more clearly, and provide training for appraisers to understand and identify implicit bias.

B. *Affordable Housing*

NAFCU appreciates the FHFA's commitment to fostering liquidity in the mortgage markets and ensuring equitable access to the secondary market by qualified institutions and borrowers. However, there are more opportunities available to the GSEs that can further close the homeownership gap and ensure that government-sponsored programs are benefiting the individuals and communities that most need them. Community Development Financial Institutions (CDFIs) promote financial inclusion and focus on serving the needs of very-low, low-, and moderate-income communities. NAFCU reiterates its December 2, 2021 request[4] for the FHFA to create a pilot program to allow the GSEs to buy non-conforming loans from CDFIs because they are serving the communities that the programs are created to help. NAFCU thanks Acting Director Thompson for meeting with its staff to discuss this important issue and looks forward to continuing the conversation.

NAFCU further urges the FHFA to allow the GSEs to participate in the Wealth Building Home Loan (WBHL) pilot program. A WBHL is structured as either a 15- or 20-year fully amortizing loan with either a fixed interest rate or a two-step rate structure, strong underwriting, and zero or low-down payment. WBHLs provide a safer path to homeownership because they generate equity at a faster rate. Traditionally, building equity faster meant high down payments, making it nearly impossible for underserved borrowers to attain wealth. Originating safer, more affordable loans for borrowers will, in turn, create a safer housing finance system and close the homeownership gap.

Strategic Goal 3: Responsibly steward FHFA's infrastructure

NAFCU applauds the FHFA for making its infrastructure a priority and a key part to its success. Diversity, equity, and inclusion are important to NAFCU, its credit union members, and the National Credit Union Administration (NCUA). Credit unions are proud of their diversity and many credit unions annually assess their diversity through the NCUA's voluntary credit union diversity self-assessment, which is designed to help credit unions assess existing diversity and inclusion policies and practices and identify opportunities to implement best practices in diversity and inclusion. There are more than ten times as many female CEOs in credit unions than in banks.[5]

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[3] *Federal Interagency Comment Letter on Appraisal Discrimination*. (February 4, 2022). https://files.consumerfinance.gov/f/documents/cfpb_appraisal-discrimination_federal-interagency_comment_letter_2022-02.pdf

[4] NAFCU. *Pilot Programs to Increase Access to Mortgage Credit*. (December 2, 2021). https://www.nafcu.org/system/files/files/12.2.2021%20Letter%20to%20FHFA%20re%20Pilot%20Programs.pdf

[5] *The Credit Union Difference*. https://www.nafcu.org/cu-difference

Additionally, there are over three times more credit union minority depository institutions (MDIs) than bank MDIs.[2] NAFCU fully supports the FHFA holding itself to the same standards it demands of its regulated entities.

Conclusion

NAFCU and its members appreciate the opportunity to comment on the draft strategic plan for fiscal years 2022-2026 and generally support all three goals. NAFCU recommends that the FHFA use technology to aid in appraisal modernization, create and approve pilot programs to close the homeownership gap, and work with other regulators to address climate risk. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2268 or amoore@nafcu.org.

Sincerely,

Aminah M. Moore
Regulatory Affairs Counsel