NCSHA
National Council of State Housing Agencies

March 11, 2022

Sandra Thompson
Acting Director
Federal Housing Finance Agency
400 Seventh Street SW
10th Floor
Washington D.C. 20219

RE: FHFA Proposed Strategic Plan

Dear Acting Director Thompson:

The National Council of State Housing Agencies (NCSHA),[1] on behalf of the nation's state housing finance agencies (HFAs), is pleased to submit comments on the Federal Housing Finance Agency's (FHFA) proposed Strategic Plan for Fiscal Years 2022-2026.

We commend FHFA for proposing a Strategic Plan that establishes a newly expanded strategic goal to "Foster housing finance markets that promote equitable access to affordable and sustainable housing." To meet this goal, the Strategic Plan includes several concrete objectives, policies, and strategies for ensuring that the Government-Sponsored Enterprises (GSEs) Fannie Mae, Freddie Mac, and Federal Home Loan Banks (FHLBs) fulfill their affordable housing missions. NCSHA is particularly supportive of the following provisions:

- Objective 2.1, "Promote sustainable access to mortgage credit;"
- Objective 2.2, "Advance equity in housing finance, including through compliance with fair lending laws and regulations;" and
- Objective 2.4, "Facilitate greater availability of affordable housing supply, including affordable rental housing."

To better facilitate the GSEs' support for affordable housing, we suggest FHFA add to the Strategic Plan an objective specifically focused on directing Fannie Mae and Freddie Mac to expand their partnerships with state HFAs, similar to Performance Goal 2.3 in FHFA's Strategic Plan for 2015-

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2019. Further, as a step towards meeting this objective, we suggest that FHFA encourage Fannie Mae and Freddie Mac to restore pricing and other advantages for their HFA preferred products.

State HFAs' and the GSEs Are Natural Partners

State HFAs are at the center of the nation's affordable housing delivery system and are focused on meeting the affordable mortgage finance needs of the low- and moderate-income homebuyers and renters in their states.

In 2020, state HFA programs provided more than $31.8 billion to an estimated 165,400 homebuyers. This includes an estimated $10.3 billion of Enterprise financing, which helped over 51,000 homebuyers. Twenty-eight state HFAs are sellers and/or servicers for one or both of the Enterprises. HFAs have partnered with Fannie Mae and Freddie Mae to extend billions of dollars in credit to tens of thousands of homebuyers over the past several years. At the end of 2019, state HFA portfolios held more than $26 billion of Enterprise mortgage products.

Three-quarters of all state HFA home loans in 2020 went to borrowers earning at or below area median income. The median borrower income for all state HFA program loans in 2020 was $47,991. The national average purchase price of HFA program loans in that year was $187,841. This is well below the conforming loan limit of that year and underscores that our members are focused on helping the same homebuyers the GSEs should strive to serve more successfully. Twenty-six percent of HFA program loans went to people of color and 30 percent to female-headed households, showing that state HFAs are focused on providing mortgage financing to these underserved groups, particularly homebuyers and communities of color. The Enterprises are important partners in these endeavors.

Even though state HFAs serve lower-income, higher-risk borrowers than most lenders as a matter of mission, HFAs have a long track record in industry-leading loan performance and borrower sustainability. A review of 1 million loans to low- and moderate-income (LMI) buyers guaranteed by Fannie Mae between 2005 and 2014, of which roughly 10 percent were HFA-backed, found HFA loans were 20 percent less likely to experience a long-term default and 30 percent less likely to be foreclosed.

This strong record makes HFAs natural partners for the GSEs as they look to expand affordable housing opportunities and build a more equitable housing finance system. FHFA has recognized the critical role HFAs play in financing affordable housing opportunities at several times. As mentioned above, FHFA established a performance goal in its 2015-2019 Strategic Plan centered around increasing HFA partnerships with Fannie Mae and Freddie Mac. This prompted Fannie Mae and Freddie Mac to meet with NCSHA as well as state and local HFAs to explore partnership possibilities in a number of areas, including expanding their special HFA products, supporting manufactured housing lending, and developing new multifamily products.

FHFA initially proposed to maintain this same goal in its Strategic Plan for 2018-2022, but it was removed after the agency issued a new Strategic Plan under then-Director Mark Calabria. Consequently, many of the discussions between HFAs and Fannie Mae and Freddie Mac ended before any concrete action was taken.

Under Acting Director Thompson, FHFA has taken a number of steps to increase GSE support for affordable housing. These include requiring the Enterprises to develop and implement equitable housing plans, establishing stronger affordable housing goals, directing the Enterprises to improve their Duty To Serve plans, suspending provisions of the Enterprises' Preferred Stock Purchase Agreements (PSPAs) that limited the GSEs' support for affordable lending, increasing the cap on Enterprise investments in Low-Income Housing Tax Credits, and increasing the cap on Enterprise multifamily business for 2022.

NCSHA strongly supports all of these policies, and we along with the HFAs look forward to partnering with you and the GSEs to meet our nation's crucial affordable housing needs. To help unleash the potential for productive HFA-GSE partnerships, we suggest FHFA establish a specific objective in its Strategic Plan to promote partnerships between HFAs and Fannie Mae and Freddie Mac.

Expand Enterprise HFA Loan Products

Fortunately, there is a tried and tested way the GSEs can increase their partnerships with HFAs, expand access to affordable mortgages, and help close the racial homeownership and wealth gaps: restoring and potentially expanding the benefits of their HFA products. Over the past decade, the GSEs have offered special products specifically for loans originated through HFA programs. The products, HFA Preferred for Fannie Mae and HFA Advantage for Freddie Mac, include substantial pricing discounts, most notably the waiving of loan-level pricing adjustments (LLPAs). In addition, the products allow borrowers to purchase the "charter minimum" level of private mortgage insurance (PMI) of 18 percent, saving homeowners thousands in total insurance payments.

The products have been a resounding success in helping the HFAs and GSEs carry out their affordable housing missions. Since Fannie Mae first launched its product in 2011 and Freddie Mac introduced its product in 2015, HFAs have utilized them to help more than 250,000 households, including many people of color, purchase a home. The loans' strong performance was instrumental in FHFA allowing the GSEs to expand its affordable, high loan-to-value (LTV) lending options, including Fannie Mae HomeReady and Freddie Mac Home Possible.

Unfortunately, in 2019, to comply with FHFA's then-proposed capital standards, Fannie Mae and Freddie Mac eliminated the pricing advantage for their HFA products for all loans to borrowers above 80 percent of AMI. They also increased the PMI coverage requirements for such borrowers. This has greatly hindered HFAs' ability to use the products to help working families buy homes. The changes have been especially impactful to moderate- and middle-income minority households, who, while earning above 80 percent of AMI, often don't have the same access to financial assistance from family or other resources to help pay for a down payment. While it is perhaps too soon to detect the impact of the changes, two-thirds of HFAs estimated in 2019 that the product changes would reduce the amount of program loans they could deliver to minority homebuyers.

Reestablishing the pricing and PMI advantages for more GSE HFA product borrowers is an easy and efficient way to utilize HFAs' potential as partners in improving equity in homeownership lending. In a recent survey of HFAs conducted by NCSHA, four-in-five HFAs said expanding the pricing advantage and charter level PMI for more HFA Preferred borrowers would increase their ability to serve more homebuyers of color.

NCSHA suggests that Fannie Mae and Freddie Mac expand the pricing and charter PMI coverage for all HFA product borrowers with incomes at or below 115 percent of area median income, which would match the requirements for the Mortgage Revenue Bond (MRB) program.

In addition, there are several other concrete steps the GSEs can take to address our nation's housing needs as soon as FHFA directs them to undertake them with state HFAs. They are:

- Increasing Enterprise financing for HFA mortgage-backed securities and tax-exempt bonds;
- Piloting acquisition, development, and construction financing; and
- Scaling small-dollar home mortgage loans.

NCSHA described each of these proposals in more detail in our comments on Fannie Mae's and Freddie Mac's Equitable Housing Finance Plans. We urge FHFA to use its Strategic Plan to incentivize Fannie Mae and Freddie Mac to engage in such activities.

Thank you for taking the time to read our recommendations. Feel free to reach out to me to discuss this further at any time.

Sincerely,

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives