Housing Finance & Regulatory Affairs
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Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Re: FHFA Strategic Plan: Fiscal Years 2022-2026

Submitted via Electronic Delivery to: www.fhfa.gov

Dear Sir or Madam:

The National Association of Home Builders of the United States (NAHB) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Strategic Plan for Fiscal Years 2022-2026 (Strategic Plan). The Strategic Plan outlines three similar strategic goals as the plan issued in September 2020 for 2021-2024 with objectives to ensure Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (FHLBanks) will continue focusing on safety and soundness, achieving their capital requirements, fulfilling their statutory missions and ensuring an effective and efficient infrastructure, including an inclusive work environment for staff.

NAHB is a Washington, D.C.-based trade association representing more than 140,000 members involved in all aspects of single-family and multifamily residential construction. The ability of the home building industry to meet the demand for housing, including addressing affordable housing needs, and contribute significantly to the nation's economic growth is dependent on an efficiently operating housing finance system that offers home buyers and producers of rental housing access to mortgage financing at reasonable interest rates through all business conditions.

Background

In its current dual role as regulator and conservator of the Enterprises and as regulator of the FHLBanks, FHFA's authority is mandated in the Federal Housing Enterprises Financial Safety and Soundness Act as amended by the Housing and Economic Recovery Act (HERA) of 2008 and the Emergency Economic Stabilization Act (EESA) of 2008. Until such time as Congress revises these statutes and/or the charter missions of the Enterprises and the FHLBanks, FHFA is responsible for supervising the business and operations of the regulated entities to ensure they are safe and sound and aligned with the missions set forth in their authorizing statutes.

Chief among its directives in overseeing the Enterprises and the FHLBanks is for FHFA to ensure that "the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities.)"

NAHB Comments on FHFA's Strategic Goals

The Strategic Plan reinforces FHFA's mission to ensure that Fannie Mae, Freddie Mac, and the FHLBanks fulfill their mission by operating in a safe and sound manner so they serve as a reliable source of liquidity and funding for housing finance and community investment throughout the economic cycle.

The Strategic Plan provides a robust outline for FHFA's effective supervision, regulation and housing mission oversight of the Enterprises and FHLBanks. As mentioned above, the new Strategic Plan's three overarching strategic goals are very similar to those in the 2021-2024 strategic plan. However, under the direction of Sandra Thompson, Acting Director of FHFA, there are notable differences in the three Strategic Goals and the itemized Objectives of each goal, which are indicative of the Acting Director's focus for the Enterprises. For example, an objective of the 2022-2026 Strategic Plan is to "manage the conservatorships" while the *Strategic Plan for Fiscal Years 2021-2024* and the *2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* included the objective of "positioning the Enterprises to responsibly end the conservatorships."

Additionally, the Strategic Plan includes Means and Strategies for FHFA's approach to achieving the Objectives and addressing new and increasingly significant challenges facing the housing finance arena. The challenges include how to: 1) preserve and conserve Enterprise assets while managing the conservatorships; 2) incorporate climate change and disaster response options into governance of the Enterprises and the FHLBanks; 3) advance fair, equitable and sustainable access in housing, affordable housing and housing finance; 4) facilitate increased housing supply, including increased affordable rental housing; 5) leverage technology and data to promote efficiency and cost savings in the mortgage process, including the mortgage underwriting process.

Below, NAHB offers thoughts and recommendations on certain aspects of how the Strategic Plan proposes to address the challenges mentioned above.

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

Objective 1.3: Preserve and conserve Enterprise assets while managing the conservatorships

Means & Strategies to achieve the objective include:
1. Provide clear conservatorship expectations to Enterprise boards and management;
2. Develop a readiness framework for the Enterprises;
3. Oversee the Enterprises' implementation of capital plans to achieve regulatory capital requirements;
4. Require the Enterprises to transfer a significant amount of credit risk to private investors;
5. Require the Enterprises to update their pricing frameworks to enhance safety and soundness while providing enhanced support for core mission borrowers.

We are pleased the Strategic Plan continues the implementation of the Enterprises' regulatory capital framework and the 2021 changes to the Preferred Stock Purchase Amendments (PSPAs) in support of allowing the Enterprises to retain their profits. Building capital is essential to ensure the safety and soundness of the Enterprises.

We also are pleased FHFA will require the Enterprises to transfer a significant amount of credit risk to private investors. In the 2021-2024 strategic plan there was no mention of the credit risk transfer (CRT) program and NAHB's comments on the 2021-2024 plan noted this omission. NAHB believes CRT transactions should remain a core risk management tool for the Enterprises, albeit with ongoing assessments of their performance and acceptance by the investor community.

As stated in the Strategic Plan, FHFA will require the Enterprises to update their pricing framework to enhance safety and soundness while providing enhanced support for core mission borrowers. NAHB notes that FHFA already has directed the Enterprises to increase upfront pricing for loans the agency views as less appropriate for the Enterprises' mission. While NAHB acknowledges cross subsidization on product pricing is fundamental to the Enterprises' statutory mission to engage in "…activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities," we believe increased upfront fees on certain mortgage loans should be related to the risk of the mortgage loan and not tied only to FHFA's view of the a mortgage loan's contribution to the Enterprises' core mission.

For example, FHFA announced on January 5, 2022 that effective April 1, 2022 it will require the Enterprises to increase upfront fees charged for second home mortgage loans and mortgage loans in high-cost areas that exceed standard conventional conforming loan limits. Upfront fees on "super conforming" loans sold to Fannie Mae and Freddie Mac will increase between 0.25% and 0.75% and upfront fees for mortgage loans on second homes will increase between 1.125% and 3.875%.

Though FHFA may not agree super conforming loans and second home loans are core mission loans for the Enterprises, these significant increases in fees are not aligned with the credit risk of the mortgage products. While FHFA may contend the increase to these upfront fees could increase safety and soundness of the Enterprises by contributing to profits, NAHB believes the fees are excessive.

NAHB appreciates that FHFA has exempted high-balance loans for first-time home buyers with incomes at or below 100 percent of area median income and certain affordable Enterprise programs from the increased fees. However, FHFA should consider that the increased fees may unnecessarily penalize borrowers who live in high-cost areas because these areas often have more employment opportunities.

With regard to the increased fees on mortgage loans on second homes, NAHB believes the fees are not calibrated to risk. Monthly data collected by CoreLogic True Standings Servicing for the past two years has shown the serious delinquency rate for mortgage loans on second homes, defined as loans 90 days or more past due or in foreclosure proceedings, is significantly less than that of mortgage loans on primary homes. This holds true for purchase loans and refinance loans. Overall, the serious delinquency rate and rate on loans in foreclosure on conventional second home mortgage loans appear to have been about one-half of the rate on owner-occupied home loans before the pandemic and appear to be nearly one-half today. The serious delinquency rate on mortgages for both owner-occupied primary residences and second homes ballooned during the early months of the pandemic, yet the serious delinquency rate on second home mortgage loans always stayed below that of owner-occupied home mortgage loans.

The second home market is more varied than many people realize. NAHB has done research in this area in order to understand the profile of who has a mortgage on a second home. Though people may assume second homes are beach homes purchased by affluent individuals and families, NAHB found the reality was rather different. Many affluent people do not have mortgages on second homes and most second homes with a mortgage are not coastal homes. Nearly every state has areas with significant numbers of second homes. Second homes with a mortgage are concentrated in some of the most affordable housing markets in the country - in areas such as rural New England and the Great Lake States - and very typically reflect a modest family property. In many of these counties, the percentage of second homes is so high any disruption to the market would ripple through that local economy.

NAHB requests that FHFA monitor the impact of these upcoming price increases and consider future adjustments based on credit risk data and market conditions.

Objective 1.4: Identify options for incorporating climate change into regulated entity governance

Means & Strategies to achieve the objective include:
1. Conduct research on the risks and effects of climate change on the housing finance system;
2. Build on experiences with natural disaster response to ensure prioritization of climate change at FHFA and the regulated entities;
3. Improve climate data collection, analysis, and reporting.

Climate change and natural disaster response are top-of-mind for the Biden Administration. FHFA and other regulators of financial institutions are in the early stages of understanding the potential impacts of climate change and natural disasters on the financial industry in order to identify possible preemptive actions and responses.

Accurate data and consistent use of that data is critical to establishing policy to address climate-related financial risk. The current array of risk data, climate models, hazard maps, mortgage default rates, damage assessments, etc. may seem to cover every possible scenario, yet much of the data is incomplete, inaccurate, out-of-date, unavailable, or not of the quality needed to make sound policy decisions. The ability to accurately measure and assess climate-related risk is severely impaired by these data limitations.

The means and strategies FHFA listed for identifying options to incorporate climate change and natural disaster response into the regulated entity governance focus heavily on data collection, research, analysis and reporting. NAHB believes these measures are reasonable and are good first steps. If FHFA partners with other organizations to assist in these efforts, the partnerships should be transparent and the organizations should be credible and have specific areas of expertise. When available, climate data collection, analysis and reporting by FHFA and the Enterprises should be public and shared with all interested parties.

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

Objective 2.1: Promote sustainable access to mortgage credit

Means & Strategies to achieve the objective include:
1. Monitor the Enterprises' efforts to identify specific actions to increase and preserve sustainable mortgage purchase and refinance credit for all qualified borrowers, with additional focus on low- and moderate-income families, communities of color, rural areas, and other underserved populations;
2. Oversee the Enterprises' statutory mission obligations under the Affordable Housing Goals and Duty to Serve requirements;
3. Ensure the FHLBanks continue to provide advances in a safe and sound manner in support of member liquidity and to comply with Affordable Housing Program (AHP) and Community Investment Program (CIP) statutory requirements;
4. Ensure the FHLBanks serve each state in their district under the AHP and CIP programs and the FHLBanks' Community Lending Plans identify and seek to fulfill the needs of communities throughout the district, including tribal communities;
5. Continue to ensure sustainable loss mitigation;
6. Monitor the Enterprises' efforts to ensure a level playing field for small and large sellers.

NAHB supports the affordable housing missions of Fannie Mae, Freddie Mac and the FHLBanks. As government-sponsored entities receiving benefits from the U.S. government, they should pass along their advantages to help home buyers and renters access affordable, sustainable housing.

NAHB believes FHFA should monitor *and encourage* the Enterprises to take actions "to increase and preserve sustainable mortgage purchase and refinance credit…" Mortgage credit availability has been tight since the Great Recession. Analysis by the Urban Institute of lenders' tolerance for borrower and product risk indicates that credit availability has been modest compared to pre-crisis standards[1]. The Enterprises can do more to reasonably expand the credit box. These efforts should not be limited to Duty to Serve activities and the Enterprises' Housing Goals.

NAHB is pleased to see FHFA has highlighted the important programs available through the FHLBanks. The FHLBanks are critical to affordable housing in their regions and often are not recognized for their contributions. Through their Affordable Housing Program (AHP) requirements they play an important role in providing options to assist low- and moderate-income consumers seeking to purchase, construct or rehabilitate owner-occupied housing. We believe the FHLBanks could be encouraged to do more through the AHP in the area of purchase, construction and rehabilitation of rental housing for low-income households.

Objective 2.2: Advance equity in housing finance, including through compliance with fair lending laws and regulations

Means & Strategies to achieve the objective include:
1. Promote fair and equitable treatment of mortgage borrowers and sustainable housing opportunities;
2. Oversee the Enterprises' implementation of Equitable Housing Finance plans and ensure the Enterprises take meaningful actions to achieve the goals and objectives in the plans;
3. Conduct equity and fair lending assessments, as well as targeted examinations for fair lending compliance, on the regulated entities' policies, products, and initiatives;
4. Ensure that the regulated entities maintain effective fair lending programs that identify, assess, monitor, and mitigate fair lending risk and prevent the occurrence of fair lending violations; and
5. Publish data and analysis on fair lending, fair housing, and equity topics.

In October 2021, NAHB responded to FHFA's Request for Input on a proposal to require the Enterprises to develop plans for promoting equitable housing finance. We understand FHFA's motivation to require the Enterprises to produce equitable housing finance plans and oversight of the plans is appropriate to include in the Strategic Plan. As we said in our response to the Request for Input, there is a definite need to ensure mortgage credit is equally available and accessible to qualified consumers who may be denied the opportunity for homeownership due to current standard industry practices. Importantly, there is a current groundswell of support for pushing the industry to make substantive changes to achieve these significant goals of increased minority homeownership and accumulation of wealth through homeownership.

Objective 2.4: Facilitate greater availability of affordable housing supply, including affordable rental housing

Means & Strategies to achieve the objective include:
1. Oversee Enterprises' implementation of initiatives to increase the supply of housing affordable for low- and moderate-income households;
2. Continue to explore opportunities to further increase the number of 2–4-unit properties and manufactured housing and accessory dwelling units; and
3. Monitor the Enterprises' support of multifamily housing needs with a focus on affordable, underserved, and workforce segments of the market.

[1] Goodman, Laurie. February 2022. Housing Finance at a Glance. P. 13

NAHB appreciates FHFA has included an objective that calls for FHFA to facilitate a greater supply of affordable housing. A housing supply shortage has led to increased house prices nationwide. As home builders, we appreciate FHFA's recognition of its responsibility to increase both the supply of affordable housing for low- and moderate-income households and explore opportunities to increase the number of 2-4 unit properties and accessory dwelling units (ADUs).

NAHB analysis of "missing middle" housing, including medium-density housing (townhouses, duplexes, and other small multifamily properties) has shown that the level of new construction activity in this sector has been disappointing. There were only 12,000 starts of apartments in 2 to 4 unit properties in 2021. This is flat from 2020, during a period of time when most market segments expanded.

In our response to FHFA's *Strategic Plan for Fiscal Years 2021-2024*, NAHB asked FHFA to include an avenue for supporting a secondary market for acquisition, development and construction (AD&C) loans. NAHB believes FHFA should acknowledge the importance of reliable AD&C financing for home builders and developers to increase housing supply. We have urged FHFA to allow the Enterprises to purchase AD&C loans from community financial institutions. NAHB's Quarterly Survey on Financing for AD&C indicates that commercial banks and thrift institutions are the major sources of financing for home builders. While credit for home builders and developers currently is reasonably available, NAHB continues to advocate for a consistent supplier of AD&C financing so a sudden downturn in the market does not impede the ability of home builders to continue to build homes.

In our response to FHFA's Request for Input: *2022-2024 Duty to Serve Plans*, NAHB wrote the Enterprises should consider adding ADUs to their Duty to Serve Plans to assist affordable housing preservation and the rural housing market. Currently, most cities and towns have zoning laws and other restrictions governing the density of housing that create barriers to building these units. However, many cities and towns are loosening or eliminating these constraints as local officials seek solutions to housing affordability and housing supply concerns in their jurisdictions. In many areas, local officials are studying whether allowing homeowners to construct an ADU on their property would increase the overall housing supply and possibly expand the number of affordable housing units for their low- to moderate-income residents. Additionally, an ADU used as a rental unit can provide families or individuals with a source of income, making the primary residence on the property more affordable. NAHB suggests FHFA conduct research and publish data on ADUs to 1) determine the potential for ADUs to contribute to housing supply; 2) assess the degree to which ADUs can increase the amount of affordable housing in local markets; and, 3) evaluate whether ADUs are more affordable than rental units that meet a traditional industry definition of "affordable housing."

Furthermore, NAHB recommends the Enterprises develop a mortgage product that supports the potential of ADUs to increase the housing supply. The housing market and home buyers would benefit from a mortgage product that would help a family or individual purchase a property with an ADU by allowing potential rental income of an ADU to be counted toward income to qualify for the purchase of the home. Both also would benefit from a mortgage product that would allow the use of potential rental income to qualify for a mortgage to develop and construct an ADU.

In our response to FHFA's proposed rule, *2022-2024 Enterprise Housing Goals*, NAHB urged FHFA to add a multifamily housing goal for the purchase of mortgage loans that support workforce housing. We want to reiterate our recommendation that FHFA give goals credit to the Enterprises for purchase mortgage loans on multifamily rental properties with a prescribed number of rental units affordable to moderate-income families with incomes between 60 percent and 120 percent of AMI. Workforce housing is commonly defined as housing affordable to borrowers in this income category, and the supply of housing available to this group is not adequate.

Objective 2.5: Support leveraging of technology and data to further promote efficiency and cost savings in mortgage processes

Means & Strategies to achieve the objective include:
1. Explore modernizing the single-family appraisal process to foster efficiency in mortgage markets, and address barriers to equitable valuation;
2. Explore opportunities to leverage non-traditional data, alternative approaches, and new technology in the mortgage underwriting process;
3. Continue implementation of the final rule on the validation and approval of third-party credit scores model(s) that can be used by the Enterprises; and
4. Research and explore opportunities for further incorporation of financial technology (Fintech) in activities of the regulated entities and other mortgage market participants.

NAHB welcomes FHFA's inclusion of appraisal modernization in the Strategic Plan. Appraisal reform was not mentioned in FHFA's *Strategic Plan for Fiscal Years 2021-2024* and in our comments on the plan NAHB recommended it should be added. NAHB has been a leading advocate for improving the valuation process and believes better data and a workable Reconsideration of Value (ROV) process is critical to achieving this goal. In addition, the cost approach to value should be used to evaluate newly constructed homes.

NAHB believes that accurate appraisals are essential to a healthy and sustainable housing finance system. Yet, appraisals remain a challenge for the housing industry. NAHB members continue to cite impediments that hamper appraisers' ability to provide accurate valuations of residential real estate. The current appraisal system is impaired due to inconsistent and conflicting standards and guidance; inadequate and uneven oversight and enforcement; a shortage of qualified and experienced appraisers; and, the absence of a robust and standardized data system.

NAHB appreciates the efforts taken to-date by Fannie Mae and Freddie Mac to modernize their appraisal process and update the uniform appraisal dataset. We are hopeful by including it in the current Strategic Plan, FHFA will elevate appraisal modernization to a top priority.

Strategic Goal 3: Responsibly steward FHFA's infrastructure

This goal addresses FHFA's commitment to cultivate an internal work environment that supports a diverse, inclusive, accountable and engaged workforce. The Strategic Plan emphasizes the importance of sound management of the agency's resources, quality and reliable internal support services, and identifying and addressing operational risks to FHFA as well as cybersecurity risks to the agency and the financial sector. NAHB agrees this goal is of great importance.

NAHB Recommendations

NAHB believes the Strategic Plan is lacking two important components that could help FHFA achieve the stated objectives of facilitating a greater supply of affordable housing and mitigating climate change and natural disaster risk. Working with the housing industry, FHFA should allow the Enterprises and the FHLBanks to move forward and develop programs/products to meet the needs below.

AD&C Financing

As mentioned earlier, NAHB believes the Enterprises could help increase the supply of affordable housing by establishing a secondary market for AD&C financing. Banks often are constrained from originating AD&C loans by capital requirements and risk management guidelines that may limit the volume and concentration of AD&C loans in their portfolios.

NAHB believes this is an opportune time for FHFA to allow Fannie Mae, Freddie Mac and the FHLBanks to explore providing a viable secondary market outlet for AD&C loans, particularly for community banks, a primary source of AD&C financing for home builders. NAHB recommends FHFA and the Enterprises work with NAHB to design an AD&C financing program that would allow the Enterprises to purchase AD&C loans from community banks.

"Green" Mortgages

The multifamily "green" mortgage programs offered by Fannie Mae and Freddie Mac have been very popular with borrowers seeking to improve energy and water efficiency in their apartment properties.

In support of mitigating climate change and natural disaster risk, both Fannie Mae and Freddie Mac should develop "green" mortgage loans for single-family home buyers that provide an economic benefit to borrowers through lower interest rates on the mortgage loans, and/or allow higher debt-to-income ratios and/or higher loan-to-value- ratios in the underwriting criteria. Current offerings by the Enterprises are too limited in scope and are not workable. The single-family green bond programs developed by Fannie Mae and Freddie Mac are a welcome innovation to address both the benefits of energy efficiency in new homes and the desire for investors to pursue ESG (environmental, social and corporate governance) investments, however, a user-friendly single-family "green" mortgage loan purchasable by the Enterprises is lacking. NAHB would welcome working with FHFA and the Enterprises to design a "green" mortgage for new construction loans that meets requirements for all parties.

Conclusion

NAHB views the Strategic Plan as a comprehensive blueprint for guiding the Enterprises and the FHLBanks as they carry out their statutory responsibilities and address the new and emerging challenges facing the housing and housing finance markets. However, we believe FHFA and its regulated entities should and could do more to support homeownership, rental housing and housing supply.

NAHB agrees the Enterprises should build capital. A robust capital base is critical to their safety and soundness, efficient operations, protecting taxpayers, and attracting investors, all of which support their mission to ensure a stable and liquid secondary mortgage market. However, a portion of Fannie Mae's $22.2 billion net income in 2021 and Freddie Mac's net income of $12.1 billion in 2021 should be used to develop new and innovative programs and products and/or pilot programs and products. Fannie Mae and Freddie Mac have expert risk-management teams and are transferring substantial amounts of credit risk successfully to private investors. The Enterprises should commit resources toward new programs and products that would stretch current Enterprise activities to reach underserved borrowers and address the housing and finance challenges FHFA has identified. NAHB believes additional risk can be taken by the regulated entities without harming safety and soundness.

NAHB believes, as structured, the Strategic Plan is achievable. Although FHFA has outlined economic and environmental factors it believes could impede its ability to meet its strategic goals and objectives, these factors should not alter the agency's ability to oversee, research and monitor the activities included in the Strategic Plan. For instance, as demonstrated by the response to the COVID-19 pandemic and other emergencies that have required immediate action, FHFA and its regulated entities are well-positioned and experienced to respond to unexpected external factors.

Thank you for your consideration of NAHB's comments. If you have questions, please contact Becky Froass, Director, Financial Institutions and Capital Markets, at 202-266-8529 or email rfroass@nahb.org.

Sincerely,

Jessica R Lynch

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