



NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE
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September 8, 2014

The Honorable Mel Watt
Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, DC 20024

RE: FANNIE MAE AND FREDDIE MAC GUARANTEE FEES: REQUEST FOR INPUT

Dear Director Watt:

On behalf of the NAACP, our nation's oldest, largest and most widely-recognized grassroots-based civil rights organization, I am writing in response to the Federal Housing Finance Agency's (FHFA) Request for Input regarding the proposed increases to guarantee fees that Fannie Mae and Freddie Mac charge lenders. Thank you so much for soliciting the input of stakeholders such as the NAACP on this crucial issue. The levels and types of fees assessed to potential homeowners has a significant impact on the affordability and thus availability of homeownership, which is especially important to the communities served and represented by the NAACP.

Census tracts which have higher racial or ethnic minority populations, lower median incomes, and a smaller quantity of owner occupied units, see fewer loans per housing unit than census tracts with lower racial or ethnic minority populations, higher median incomes, and a larger quantity of owner occupied homes¹. Economic modeling using data from the Census and the Home Mortgage Disclosure Act (HMDA) highlights the way in which this correlation leads to less lending in racial and ethnic minority communities.

Guarantee fees ("g-fees") which increase the cost of lending to minority populations in underserved markets would exacerbate the financial hurdles faced by potential homeowners, which would in turn increase the problem of concentrated poverty. Any new guarantee fee structure must be reviewed to ascertain its disparate impact on the already limited access to credit in minority neighborhoods. Raising g-fees without a commensurate drop in rates to offset them would have the effect of locking racial and ethnic minorities out of the conventional (QM) lending market, thereby forcing them into high-cost products, which will also limit their choice of neighborhoods.

¹ Elvin Wyly, "Islands of Decay in Seas of Renewal," *Housing Policy Debate* 10, no. 4 (2010).

Most major lenders have made it clear they will offer non-QM products in the coming years; this will be especially attractive to private securities since these loans will offer a higher yield than QM loans. There is a substantial risk that non-QM lenders will exploit the impact of a higher fee structure in the QM market to target underserved communities just as subprime lenders exploited the lack of conventional lending in minority neighborhoods in the past².

Risk-based pricing such as the variable G-fee structure has the potential to reduce homeownership among racial and ethnic minorities. We thus strongly urge you to consider the impact the proposed changes to the g-fees would have on all Americans before moving forward.

Thank you for your attention to the concerns of the NAACP; I look forward to working with you as together we promote affordable, sustainable homeownership for all Americans. Should you have any questions or comments, please do not hesitate to contact me at (202) 463-2940.

Sincerely,

A handwritten signature in black ink, appearing to read 'Hilary O. Shelton', written in a cursive style.

Hilary O. Shelton
Director, NAACP Washington Bureau &
Senior Vice President for Advocacy and Policy

² D Immergluck, *Foreclosed* (Cornell University Press, 2009).