May 12, 2023

Federal Housing Finance Agency
Office of Fair Lending Oversight
400 7th Street, S.W.
Washington, DC 20219

RE: Input on Enterprise Single-Family Social Bond Program

Dear Federal Housing Finance Agency:

On behalf of our low-income clients, we write to support FHFA's exploration of social impact bonds and to urge FHFA to focus its social impact bond program on reducing the racial homeownership gap and on supporting expanded homeownership for other underserved communities.

We are enthusiastic about the potential that social impact bonds have for generating additional resources to support more equitable homeownership. We firmly believe that buy ups from any social impact bonds should be used to maximize benefits to borrowers. We recognize though that maximizing benefits to borrowers may involve providing incentives to lenders to address market failures; however, benefiting underserved borrowers should be the lodestar for any social impact bond program.

One clear market failure that FHFA and the Enterprises should address through social impact bonds relates to small dollar mortgage lending. As discussed in our recent comments to FHA's Request for Information on small dollar mortgage lending, the lack of availability of small-dollar mortgages prevents low-income communities and communities of color from building wealth through homeownership and fuels the rise of predatory financing products in communities already suffering from discrimination and disinvestment. Social impact bonds could help remove the systemic barriers that prevent the origination of small-dollar mortgages and, thus, support affordable homeownership opportunities in underserved communities with lower housing prices and narrow the nation's racial wealth and homeownership gap.

FHFA and the Enterprises should also consider using any potential buy up to support goals that we have previously identified through our comments to the Equitable Housing Finance Plans. This includes supporting language access, increasing first-generation down payment assistance, incentivizing Special Purpose Credit Programs, and eliminating loan level price adjustments.

While we support the role that social impact bonds may have in generating mortgages that reduce the racial homeownership gap, we urge FHFA and the Enterprises to consider how buy ups from social impact bonds could also improve mortgage servicing outcomes, including for borrowers who receive mortgages through social impact bonds. These enhancements may include additional loss mitigation options to preserve homeownership and additional pre- and post-purchase counseling. Strong mortgage servicing and loss mitigation policies have the ability to slow the growth of existing racial inequities; weak policies will have the opposite effect, exacerbating the racial wealth gap.

We also strongly recommend enhanced data collection and reporting provisions as a component of any social impact bond program. Reports should include thorough, periodic review of origination and servicing outcomes by servicer, broken out by race, ethnicity, language preference, and geography. FHFA and the Enterprises cannot ensure equitable mortgage origination and servicing without closely reviewing this kind of data. Public reports and the underlying data, with appropriate privacy protections, should also be made available.

We appreciate the opportunity to comment on this important proposal. We look forward to further discussions on social impact bonds and their potential impact. If you have any questions, please contact Steve Sharpe, Senior Attorney at National Consumer Law Center, ssharpe@nclc.org.

Sincerely,

National Consumer Law Center (on behalf of its low-income clients)