NCSHA

National Council *of*
State Housing Agencies

August 14, 2023

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

RE: Request for Input on Enterprises' Single-Family Mortgage Pricing Framework

Dear Director Thompson:

The National Council of State Housing Agencies (NCSHA),[1] on behalf of the nation's state housing finance agencies (HFAs), thanks you for the opportunity to comment on the Federal Housing Finance Agency's (FHFA) May 15 request for input (RFI) on the government-sponsored enterprises' (GSEs) Fannie Mae and Freddie Mac framework for pricing single-family mortgages (hereafter "the Framework").

NCSHA commends FHFA for issuing this RFI. The Framework has a direct impact on the costs of homeownership for many working families. As FHFA notes in the RFI, while the GSEs charge their guarantee fees (g-fees) to the mortgagee, they are often passed onto the homebuyer through the interest rate on the loan. With rising interest rates and low inventory making it increasingly difficult for many working families to achieve homeownership, now is a critical time to revisit how these fees are calculated and applied.

As FHFA considers adjustments to the Framework, we urge the agency to balance the need for the GSEs to maintain adequate capital with their public missions to support a liquid housing finance market, including for underserved markets. This may require considering changes to the Enterprise Regulatory Capital Framework (ERCF), which heavily impacts the pricing framework and does not adequately account for the GSEs' affordable housing missions.

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[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

We also ask FHFA to continue to exempt loans originated through the GSEs' HFA-specific products, as well as other loans for low-and moderate-income homebuyers, from up-front mortgage fees. Finally, we suggest, moving forward, that all changes to the pricing framework be adopted through a formalized process that includes public input to provide more transparency, allow the market to adjust, and more fully educate the public and stakeholders about the changes being made.

Pricing Framework Should Account for GSEs' Public Missions

Fannie Mae and Freddie Mac are government-chartered corporations with public missions. Both GSEs have a statutorily enumerated duty, laid out clearly in each of their charters, to "provide stability and ongoing assistance to the secondary mortgage market." This includes support for "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." The GSEs are also both assigned the specific duty to promote access to mortgage credit throughout the nation, "including central cities, rural areas, and underserved markets."

Currently, as FHFA notes in the RFI, the Framework is based closely on the GSEs' obligations under the ERCF, which establishes leverage and risk-based capital requirements for the GSEs and has required each firm to increase its capital.

As NCSHA expressed in our August 2020 comments on the proposed rule establishing ERCF, FHFA appears to have not considered adequately the GSEs' public missions when developing the capital standards. In fact, the ERCF currently includes several unnecessary risk multipliers for loan characteristics that increase costs for first-time and low-and moderate-income homebuyers. While FHFA has recently taken several steps to improve the ERCF at the margins, it still overall hampers the GSEs' ability to fulfill their affordable housing missions.

Moving forward, it is vital that FHFA consider the GSEs' public purposes when adjusting the single-family pricing framework. This may require considering new ways to apply the ERCF requirements to the pricing framework, or perhaps even adjusting the ERCF itself. Regardless of the approach, we ask that FHFA ensure that the pricing framework does not unnecessarily disadvantage creditworthy low-and moderate-income households.

Continue to Exempt HFA and Other Affordable Lending Products from Upfront Fees

Last October, FHFA announced that the GSEs would be eliminating upfront g-fees, commonly referred to as loan-level price adjustments (LLPAs), for loan products designed to serve low- and moderate income and other underserved households. Among the products impacted were the GSEs' HFA-specific products (Fannie Mae Preferred and Freddie Mac Advantage), which offer preferred pricing and other more flexible terms for HFA program loans. Other products exempted from the LLPAs included loans to first-time homebuyers at or below 100 percent of area median income (AMI) in most of the United States and below 120 percent of AMI in high-cost areas; loans originated through Fannie Mae's HomeReady and Freddie Mac's Home Possible programs; and loans supporting GSEs' Duty to Serve programs.

NCSHA strongly supported this decision. Waiving the LLPAs for such loans saves borrowers hundreds, if not thousands, of dollars a year and will help the GSEs carry out their affordable homeownership missions.

The HFA Preferred and HFA Advantage products have proven to be an especially valuable partnership. The GSEs benefit by receiving a diverse pipeline of high-performing loans and gaining access to markets and borrowers they could not otherwise efficiently serve. HFAs generally serve borrowers and market segments the typical Fannie Mae or Freddie Mac seller/servicers do not.

The borrowers who use HFA homeownership programs are more likely to have lower incomes, purchase lower-priced homes, and use smaller down-payments than the average Enterprise borrower. Additionally, on average, state HFA homeownership programs generally serve larger percentages of borrowers of color with their combination first-mortgage and down payment assistance programs than other lending programs in their states.

Eliminating the upfront fees for such loans ensures that this partnership remains strong and continues to support homeownership for underserved borrowers. We urge FHFA to continue to exempt the HFA products and other GSE affordable homeownership program loans from the LLPAs in any new pricing framework it adopts.

In addition, should FHFA eliminate all LLPAs or significantly reduce them for significant amounts of loans and loan products that are not targeted to underserved populations, we urge FHFA to work with the GSEs and other stakeholders to develop a g-fee pricing structure or alternative system that provides similar advantages to HFA and other targeted lending.

Enact Future Pricing Changes Through Public Comment Process

Pricing mortgage risk and establishing g-fees is an inherently complex process that is made even more complicated by the need to ensure that the GSEs fulfill their public missions. This can lead to misunderstandings by the public, stakeholders, and policymakers about various pricing decisions made by FHFA and the GSEs. To help guard against this, we suggest that FHFA enact any future changes to the Framework through a public process that includes stakeholder input. This will also help to improve the Framework by allowing FHFA to hear and consider feedback from market participants and other experts. It will also give market participants more time to plan for any modifications.

Thank you again for the opportunity to comment. Please let us know if we can provide any additional information as you consider our recommendations.

Sincerely,

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives