August 14, 2023

The Honorable Sandra Thompson
Federal Housing Finance Agency
Office of Capital Policy
400 7th Street SW
Washington, DC 20219

RE: Fannie Mae and Freddie Mac Single-family Mortgage Pricing Framework

Dear Director Thompson,

The National Community Stabilization Trust (NCST) and the Homeownership Alliance appreciate the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Request for Information entitled "Fannie Mae and Freddie Mac Single-Family Mortgage Pricing Framework".

NCST is a national nonprofit that supports families and communities by restoring distressed single-family homes, strengthening neighborhoods, and increasing sustainable, affordable homeownership. NCST does this by facilitating sales of distressed homes to community-based partners, providing technical assistance and capital for single-family rehabilitation, and conducting federal policy advocacy grounded in our knowledge of local housing markets across the nation. Since its founding in 2008, NCST has facilitated the transfer of over 28,000 properties from real estate-owned (REO) sellers including the Federal Housing Administration, Fannie Mae, Freddie Mac, and a number of large banks and mortgage servicers. Approximately 19,000 of these properties were sold through NCST's flagship "first look" programs,[1] which provide community partners an exclusive right to purchase REO properties before they are listed on the open market.

NCST's programs and policy advocacy work affirmatively seek to advance racial equity by strengthening neighborhoods of color and promoting homeownership. Robust engagement with nonprofit practitioners is paramount to ensure NCST's program operations and policy recommendations are informed by community-driven organizations conducting the work on the ground. This practitioner engagement is achieved through NCST's staffing and operation of the Homeownership Alliance, a collaboration of 30 leading nonprofit housing organizations that span across 20 states.[2]

The mission of the Homeownership Alliance is to increase access to homeownership to narrow America's racial wealth gap, improve access to long-term affordable housing, and revitalize disinvested communities without gentrification. The Homeownership Alliance is committed to building a robust nonprofit-led delivery structure that will increase access to homeownership for those who have been left behind by our current system. The Homeownership Alliance supports efforts to increase mortgage opportunities to nonwhite households and

[1] NCST's flagship property acquisition program, REOMatch, also known as First Look, links financial institutions with REO properties (sellers) to mission-focused housing developers (buyers) who rehabilitate these homes to stabilize neighborhoods and provide opportunities for affordable homeownership and rental. First Look Acquisition Program.
[2] Established by NCST in 2021, the Homeownership Alliance is a practitioner-led coalition of 30 CFIs and nonprofit housing developers from 20 states. Homeownership Alliance.

neighborhoods, as it is the core of our mission to increase racial equity through affordable homeownership without gentrification or displacement.

Unfortunately, the benefits of homeownership are not evenly distributed throughout our society. America's growing racial wealth and homeownership gaps are well documented and undoubtedly interrelated. According to the National Association of Realtors, 72.7% of white households own their homes, a statistic that far exceeds the Asian American and Hispanic populations, who own 62.8% and 50.6% of homes, respectively.[3] The biggest disparity in homeownership is reflected in Black households, of which only 44% are homeowners. Furthermore, homeownership rates are directly correlated with household wealth. The Federal Reserve Bank of St. Louis found that Black families, on average, owned 24 cents for every dollar of white family wealth and Hispanic families owned 23 cents for every dollar of white family wealth.[4]

It is the fundamental belief of both the Homeownership Alliance and NCST that a strong and mission-driven nonprofit delivery system is a vital component in narrowing these disturbing racial disparities in both wealth and homeownership. When addressing the nation's housing affordability crisis, nonprofit housing organizations not only deliver the necessary supply and demand-side resources to homebuyers, but also provide an in-depth, practitioner-level perspective on how policy, regulatory, and subregulatory changes impact the diverse and ever-changing markets they serve. This perspective is crucial to policymakers and quasi-governmental entities alike, particularly as reforms impacting all elements of the housing market are considered.

As noted in previously submitted comments to FHFA,[5] [6] NCST believes that the Agency and the Enterprises have pursued excessive risk-based pricing in the past, both in the setting of guarantee fees/loan-level price adjustments (LLPAs) and the imposition of risk-based Private Mortgage Eligibility Requirements. A wide body of both quantitative and qualitative data conclude the imposition of risk-based pricing during the Great Recession had a disproportionate and negative impact on borrowers of color. The brazen targeting of underserved markets as inherently risky resulted in inequitable outcomes, manifesting through unnecessary foreclosures and harsh scrutiny in majority-minority areas seeking sustainable mortgage options.[7] [8] This placed undue burden on this population, resulting in additional barriers to homeownership.[9] These impacts reverberated both in the immediate and long-term aftermath of the Recession,[10] compounding on top of the impact of historic racist housing and city planning policies as a means to exclude non-white populations from financial and homeownership markets and the intergenerational transfer of assets.

NCST and the Homeownership Alliance are cognizant and appreciative of the pricing changes FHFA has elected to take to rectify these inequitable impacts, particularly those that align with the Agency's mission[11] to foster resilient housing finance markets through activities relating to mortgages on housing for low- and moderate-income (LMI) families. Our organizations are especially supportive of eliminating upfront LLPAs for certain creditworthy homebuyers, including first-time buyers with incomes at or below 100% of the area median income (AMI).[12] Both

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[3] More Americans Own Their Homes, but Black-White Homeownership Rate Gap is Biggest in a Decade, (Mar. 2023). National Association of Realtors.
[4] The State of U.S. Wealth Inequality, (Jul. 2023). Federal Reserve Bank of St.Louis.
[5] Comments of the National Community Stabilization Trust - FHFA RFI: Fannie Mae and Freddie Mac Proposed 2022-2024 Duty to Serve Plans, (Jul. 2021). NCST.
[6] Comments of the National Community Stabilization Trust to the FHFA - Enterprise Equitable Housing Finance Plans RFI, (Oct. 2021). NCST.
[7] Unintended Consequences of Risk Based Pricing: Racial Differences in Mortgage Costs, (Mar. 2017). Journal of Financial Services Research.
[8] Racial Disparities in Mortgage Lending: New Evidence Based on Processing Time, (Jan. 2022). Federal Reserve Bank of Atlanta.
[9] Black Homebuyers Today Pay An Unequal Price, (Mar. 2021). All Things Considered, NPR.
[10] Wealth inequality has widened along racial, ethnic lines since end of Great Recession, (Dec. 2014). Pew Research Center. According to Pew's analysis of Federal Reserve data between 2010 and 2013, the median wealth of white households increased by 2.4% from $138,600 to $141,900. Within that same period, the median wealth of Black households fell 33.7%, from $16,600 in 2010 to $11,000 in 2013. For Hispanic households, the median wealth decreased by 14.3%, from $16,000 in 2010 to $13,700 in 2013.
[11] 12 U.S. Code § 4513.
[12] FHFA Announces Targeted Pricing Changes to Enterprise Pricing Framework, (Oct. 2022). FHFA.

NCST and the Homeownership Alliance applaud FHFA's decision to subsidize this fee decrease by way of increasing fees on loans that are less relevant to the statutory purpose of the Agency, including cash-out refinance and investment properties.[13] In fact, our organizations would support a higher AMI cap for this fee exemption, as many middle-income households experience challenges in securing affordable and attainable homeownership.

Oftentimes, middle-income families lie at a troublesome intersection: lacking the capital to afford a home without subsidy, yet not meeting the income eligibility threshold for many federal housing affordability programs. As it stands, middle-income home buyers, often defined as individuals that earn up to $75,000 per year, can afford only 23% of all available homes on the market, compared to 50% just five years ago. This grouping of buyers sees a shortage of nearly 300,000 affordable units, representing the most substantial scarcity for any income bracket in the U.S. housing market.[14] Raising the 100% AMI exemption threshold would increase the number of prospective homebuyers served by members of the Homeownership Alliance, thereby expanding the reach of equitable homeownership programs and products.

While FHFA's decision to increase up-front fees to second home loans was likely intended to target higher-income borrowers, some Homeownership Alliance members have noted a point of concern in the new LLPA pricing grid as it relates to the operation of the HOME Investment Partnerships program and other available programs supporting low-income homebuyers. The proposed pricing grid changes could result in low-income homebuyers seeing significantly higher fees than appropriate. In some cases within the HOME program, an affordable homeownership practitioner may elect to have an incoming homebuyer secure a soft second mortgage to make up the difference between the appraised value of the home built by the practitioner and the price sold to the eligible buyer. The intended population served by the HOME program is akin to FHFA's mission borrowers, however in cases where the buyer is not a first-time homeowner but still requires support through HOME due to their income, the existence of the second mortgage results in heightened fee increases under the new LLPA structure.[15] This scenario is also prevalent in cases where a low-income prospective homebuyer seeks to receive down payment assistance (DPA) from a bank and a second mortgage is secured.[16] In many cases, loan-to-value (LTV) can trigger higher minimum mortgage insurance costs.

In each of the examples cited above, the increased fees negate the value of the HOME grant or the DPA provided by the bank (particularly as DPA programs are often awarded in smaller dollar amounts). As such, the Homeownership Alliance and NCST call on FHFA to further assess wherein the new LLPA grid may hinder existing affordable homeownership programs. We urge the Agency to impose necessary exemptions for the second mortgages that are taken out through these programs intended to support low-income homeowners. FHFA should consider waiving the fee increases to HOME and CDBG-funded second mortgages that are forgiven overtime and do not survive foreclosure. The Homeownership Alliance stands ready to engage in further discussion with FHFA to advise on this topic and ensure utmost clarity and communication regarding the impact to low-income borrowers. With the diverse array of markets served by members of the Homeownership Alliance, our network can provide the

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[13] FHFA Announces Targeted Increases to Enterprise Pricing Framework, (Jan. 2022). FHFA.

[14] Middle-Income Buyers Face the Most Severe Housing Shortage, (June. 2023). National Association of Realtors.

[15] Within Fannie Mae's HomeReady Mortgage program, the sellers' guide specifically highlights Community Seconds mortgages for special treatment, wherein most HOME mortgages fall. As an example, a housing practitioner might build a home that appraises for $200,000 and is sold to a low-income homebuyer for $175,000. The difference of $25,000 is secured by a soft second mortgage, forgiven overtime. Looking at the Purchase Money Loans - LLPAs (page 2) in light of the 2023 changes to the pricing grid, this adjustment results in a pricing increase though LTV goes down. The calculation is based on credit score, however for <640, the adjustment goes from 1.75% (if it were 100% LTV) to 2.625% since the new pricing structure sets the percentage at 87.5%. Over the 30-year life of the loan of $175,000, that .875% difference would cost borrowers another $24,000 in interest, negating the value of the grant.

[16] In the event a borrower receives DPA from a bank, the second mortgage would not meet Community Seconds eligibility, except in very limited circumstances. In those cases (though the mortgage can have the exact same terms), the LTV can trigger minimum mortgage insurance costs that are significantly higher - as much as .75% increase for the same circumstances (see page 7 in the Fannie Mae LLPA matrix). While many banks may claim to have portfolio products, in reality HomeReady is being utilized as opposed to the bank selling the mortgage on the secondary market, therefore LLPA changes are still factored in.

rare practitioner insight required to opine on the application of these changes in many different scenarios wherein a family may seek a mortgage.

The Homeownership Alliance and NCST recognize and appreciate FHFA's rescission of the previously-proposed changes to the LLPA pricing grid as they relate to debt-to-income (DTI) ratio.[17] The Agency has engaged the affordable housing and homeownership industry in good faith and in turn was receptive to industry leaders, trade associations, and housing practitioners alike who raised the alarm on the LLPA increases for DTIs over 40%. This pricing change would have resulted in severe operational challenges[18] throughout the mortgage process, considering the ever-changing nature of this ratio for many borrowers.

An LLPA increase for DTIs over 40% would have unintended consequences for both households of color and first-time homebuyers. Black homebuyers have higher DTI ratios than white homebuyers, and an LLPA increase based on this factor would result in further difficulties that many Black families experience when seeking to secure a mortgage.[19] Additionally, mortgage applicants in the Asian and Pacific Islander community are denied a mortgage more frequently because of DTI in comparison to any other racial or ethnic group,[20] further articulating how LLPA increases linked to the DTI ratio would further marginalize nonwhite homebuyers. As such, NCST and the Homeownership Alliance are pleased with this reversal.

As FHFA and the Enterprises collaborate to develop revised pricing policies and frameworks in light of the responses to this RFI, our organizations underline the importance of transparency with outside stakeholders regarding such changes to the highest degree practicable while ensuring safety and soundness of the mortgage market. The broader discussion on the FHFA's proposed changes to the LLPA pricing grid in early 2023 ballooned into many media outlets stoking controversial and counterfactual discourse, implying or in some cases outright asserting that the Biden Administration sought to subsidize lowering fees for borrowers with bad credit at the expense of borrowers with good credit.[21]

We recognize FHFA announced the three individual LLPA changes to the public far ahead of the implementation dates, and the Agency was deliberate in engaging affordable housing stakeholders to clarify the Agency's intent[22] and field additional feedback upon the wave of oft-misguided outrage. The reversal of the DTI component, as articulated above, and the issuance of the RFI is a clear effort by FHFA to include broader and more robust feedback in efforts to inform the new pricing grids, and such efforts are greatly appreciated by our organizations. We encourage FHFA to implement similar transparency and feedback efforts in their reform processes into the future.

Amid the media flurry,[23] some pundits' misinterpretation of the proposed pricing grid led to a harmful commentary equating low-income homebuyers, many of whom are people of color, to persons with poor credit.[24] At the onset of the media coverage, housing practitioners (including many members of the Homeownership Alliance) found themselves confused as to what changes were actually made, and why some broadcast reporting had begun to deduce the very communities that our network seeks to serve as financially irresponsible and, in extreme cases, less deserving of assistance. Affordable housing organizations working with, for, and in their communities seek to engage as directly with Agency decision makers as possible to assist in countering this inaccurate and harmful

[17] FHFA Announces Rescission of Enterprise Upfront Fees Based on Debt-To-Income (DTI) Ratio, (May. 2023). FHFA.
[18] Concerns Regarding New LLPA Changes Effective May 1, 2023, (Feb. 2023). Mortgage Bankers Association.
[19] Closing the Gaps: Building Black Wealth through Homeownership, (Nov. 2020). The Urban Institute.
[20] Asian and Pacific Islander-Headed Households Face Highest Housing Payment Burdens Among All Races, (May. 2023). Zillow.
[21] Former Obama housing chief slams 'unprecedented' Biden mortgage plan, (Apr. 2023). Fox Business.
[22] Setting the Record Straight on Mortgage Pricing: A Statement from FHFA Director Sandra L. Thompson, (Apr. 2023). FHFA.
[23] DataDigest: Correcting the LLPA false claims, (Apr. 2023). HousingWire.
[24] Biden Raises Costs for Homebuyers With Good Credit to Help Risky Borrowers, (Apr. 2023). Newsweek.

narrative. Practitioner-level perspectives on these and future changes to the pricing framework can provide accurate insights into the policy changes necessary for improving the condition of underserved mortgage markets.

There are many schools of thought arising in the affordable housing and mortgage industry positing if the existence of LLPAs is necessary in our current market. The Homeownership Alliance and NCST understand that the revenue losses from matrix revisions will need to be made up elsewhere to ensure FHFA and the Enterprises can sustain their operations in accordance with statutory intent.[25] As the Agency considers future revisions, we implore the FHFA to anchor such changes in its mission to serve LMI households and reach historically underserved markets. The Agency's elimination of LLPAs for borrowers central to its mission and subsidizing the change by increasing prices to non-mission loans is a monumental first step.

Thank you for the opportunity to provide comment on the Enterprise's single-family pricing framework, as well as the goals and policy priorities we believe the Agency should pursue in the oversight of said framework. The Homeownership Alliance is a willing partnership of affordable housing stakeholders, and we remain eager to maximize resources that support affordable mortgage products and help to stave off the nation's growing housing crisis. Any questions or points of clarification can be addressed to Elisabeth Coats, Director of Homeownership Alliance, at the NCST (ecoats@ncst.org). We appreciate the Agency's time and consideration of our perspectives.

Sincerely,

The National Community Stabilization Trust

The Homeownership Alliance

[25] 12 U.S. Code § 4513.