August 14, 2023

Federal Housing Finance Agency
Attn: Clinton Jones, General Counsel
400 7th Street SW
Washington, DC 20219

Re: Enterprises' Single Family Pricing Framework

Dear Mr. Jones,

The Lincoln Institute of Land Policy and the undersigned organizations appreciate the opportunity to offer this response to your request for input (RFI) on the Enterprises' Single Family Pricing Framework.

The undersigned organizations are all members of the Underserved Mortgage Markets Coalition (UMMC), but this letter is only on behalf of the undersigned organizations and has not been endorsed by all members of the UMMC. The UMMC works with FHFA and the Enterprises to adjust their underwriting practices to better reach underserved markets in a safe, sustainable manner. The UMMC works primarily through FHFA's two mission-driven strategic planning requirements, the Duty to Serve and Equitable Housing Finance planning processes.

We also seek to promote broader understanding of the increasingly central role the Enterprises play in U.S. affordable housing and to demystify the Enterprises' business practices to make them easier for our member organizations, and others, to understand and engage with. Single family pricing is integral to both Enterprises' business models containing proprietary elements as well as parameters established by FHFA. We confine our comments here to the latter.

As referenced in FHFA's RFI, the single family pricing framework is closely linked to the Enterprise Regulatory Capital Framework.[1] To a large extent, pricing determines the amount of revenue and net income that's available to help the Enterprises meet FHFA established requirements to increase their capital reserves. In turn, these business considerations influence the extent to which the Enterprises prioritize their mission responsibilities to reach underserved markets.

As FHFA and the Enterprises determine the single family pricing framework and as FHFA adjusts the Enterprise Regulatory Capital Framework, we are weighing in primarily to remind all parties that the reason the Enterprises were established in the first place and have the backing of the U.S. Treasury, is to promote efficient mortgage markets and to continue to innovate to reach historically underserved markets.[2] We recommend that operating in a safe and sound manner to meet the mission be kept at the center of all conversations about pricing and capital.

[1] Federal Housing Finance Agency, Final rule. (2020)

[2] See 12 U.S. code 1716.

If pricing or capital policy is set in a way that doesn't permit and encourage the Enterprises to meet their mission, then FHFA and the Enterprises are failing at their public purpose. We do not think there's sufficient understanding of the tradeoffs implicit in raising capital and in meeting public purpose. While raising additional capital over time to allow the Enterprises to come out of conservatorship is a worthy objective, given that the Enterprises already have sufficient capital for their day-to-day operations, we urge FHFA to put more emphasis on reaching underserved markets and less emphasis on increasing capital to a level that would be sufficient to exit conservatorship.

Within this framing of keeping mission at the center of pricing and capital policy, we largely defer to the technical experts at FHFA and the Enterprises on many of the details. However, we offer a few overarching suggestions. First, the RFI notes that the Enterprises are currently seeing mid-single digit returns on capital. We start with a presumption that mid-single digit returns on capital may well be sufficient for a business with government backing to achieve a public purpose. If FHFA thinks mid-single digit returns are inadequate, we are very interested in better understanding your rationale for higher private returns on at least partially public capital in this circumstance.

Second, we note that the loan level price adjustments (LLPAs) have and continue to play a particularly significant role in underserved markets. When LLPAs were added to the pricing framework during the Great Recession, they often bluntly targeted underserved markets in ways that worked contrary to the mission and were not appropriately calibrated to risk.[3] More recently, FHFA has adjusted the LLPAs to root out LLPAs inappropriately targeting manufactured housing and other Duty to Serve loans.[4]

On the plus side, LLPAs have an important role to play in discouraging certain non-mission loan categories, including loans for second homes, to investors and jumbo loans. In our view, it is appropriate to impose LLPAs to discourage the Enterprises from over-investing in these markets. Further, LLPA revenue should be earmarked to subsidize mission activities, particularly greater efforts to reach underserved markets. LLPAs also play a constructive role in discouraging the predatory and unsafe loans that led to the foreclosure crisis. These unsafe predatory loans have led some commentators to mistakenly conflate the predatory loans with prudent loans that reach the very underserved borrowers that should be the Enterprises' priority.[5]

In summary, the pricing and capital policies adopted by FHFA, should keep the Enterprises liquidity and affordable housing mission at the center of their business. To the maximum extent possible, consistent with safety and soundness, pricing and capital policy should encourage the Enterprises to do more to reach underserved markets.

Thank you for considering our perspective.

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[3] Bailey, Nikitra. A Failure to Act: How a Decade without GSE Reform Has Once Again Put Taxpayers at Risk, United States House of Representatives Committee on Financial Services, 115th, Cong. Testimony, (2008)

[4] FHFA Announces Targeted Pricing Changes to Enterprise Pricing Framework (2022).

[5] Ratcliffe, Janneke. Understanding the Impact of Recent Changes to the Federal Housing Finance Agency's Loan-Level Price Adjustment. Urban Institute (2023).

Sincerely,
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Homeownership Alliance
Lincoln Institute of Land Policy
National Consumer Stabilization Trust
Next Step