



October 24, 2014

Mr. Melvin L. Watt
Director
Federal Housing Finance Agency,
400 Seventh Street, SW.,
Washington, DC 20024.
Document No. 2014-21118

Re: 2015-17 Enterprise Housing Goals

Director Watt:

The Homeownership Preservation Foundation (HPF) is a national non-profit organization that is dedicated to guiding consumers onto the path of sustainable homeownership and improving their financial health. As a partner to the Government-Sponsored Enterprises and the public and private sectors, we envision a nation where all people can have a place to call home and the ability to reach their financial dreams. Among our many initiatives, HPF operates the Homeowner's Hope Hotline, the national contact center (888-995-HOPE™) for families threatened by the loss of their home through foreclosure and who are facing related financial challenges. HPF and our network of HUD-approved counseling agencies have served millions of American homeowners who depend on us as a trusted, neutral source of information and assistance. Two-thirds of those we have served qualify as low-moderate income and nearly half are people of color.

Today, families continue to struggle against the legacy of the housing crisis. We hear from callers who would like to forge a path to homeownership but face stiff resistance from an exceptionally restrictive lending environment. Many potential homebuyers who are being shut out of the current market would have been considered highly capable borrowers in the healthy mortgage market of the late 1990s and early 2000s. They would have been able to access home finance driven by the powerful influence of Fannie Mae and Freddie Mac (the Enterprises). Even in conservatorship, Fannie Mae and Freddie Mac are the largest sources of mortgage capital and set the underwriting standards that drive home finance.

HPF encourages FHFA to integrate housing counseling in the Enterprises' housing goals achievement process. Expanded use of housing counseling for new borrowers will help the Enterprises maintain a healthy financial position while empowering more borrowers to meet credit standards, qualify for homeownership and be successful at homeownership. In view of its impact in empowering borrower performance, housing counseling should be considered a favorable factor in credit underwriting to help alleviate excessive credit overlays and fees.

Structure of the Housing Goals

HPF supports strong housing goals for the Enterprises. These annual goals, for mortgages purchased by the Enterprises, have a critical role to play in facilitating access to mortgage credit for lower-income

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borrowers. However, the proposed 2015 - 2017 single-family goals are likely to be insufficient in mitigating the lending disparities evident in the current housing market unless broader housing credit risk overlays and high fees are addressed. We generally endorse the current hybrid structure of the goals, with both prospective and retrospective measures in four categories, but are concerned about whether the benchmarks are sufficient in driving the Enterprises to provide optimal credit opportunities for lower income borrowers in a prudent manner.

The authors of the Urban Institute report, *Assessing the Proposed Housing Goals*, make several points about the benchmarks that we find compelling. Using the current mortgage market, which is dominated by the Enterprises, as the baseline for future goals in a market where they are less dominant creates a “perverse incentive” according to the authors. “Similarly, by using as a baseline a market in which the target populations are by all accounts remarkably underserved, the FHFA is at risk of setting goals that are only ambitious in a constrained, underserved market such as this one.”¹ In a healthier market that provides better credit opportunities for the underserved, the way that the Enterprises goals are currently structured will not keep pace with the market.

Beyond these concerns about the structure of the goals, our comments focus on opportunities to ameliorate the credit underwriting overlays and high fees that undermine the impact of the goals. Home Mortgage Disclosure Act (HMDA) data points to the challenges facing low and moderate-income families, African-American and Hispanic borrowers. In 2013, lending to these borrowers declined to levels not seen in over a decade. FHFA forecasts the low-income share to continue to decline through 2017. This trend is deeply distressing and must be halted.

Fortunately, the overlays and high fees that are contributing to the decline in the low income share can be addressed directly by the Enterprises. Lender credit risk overlays and high fees must be reduced to improve credit access, otherwise many credit-worthy lower-income individuals capable of successful homeownership will remain relegated to the sidelines, exposed to a limited supply of affordable rental housing. Expanding the use of housing counseling for those who would like to fulfill the dream of homeownership would help resolve these deficiencies.

The Enterprises’ Use of Housing Counseling

The Enterprises are proven partners for the housing counseling industry and should provide greater assistance to borrowers preparing for homeownership and ongoing support through the life of the mortgage. Both organizations make use of housing counseling to help borrowers avoid foreclosure, secure and sustain modifications and participate in certain mortgage programs. The Enterprises helped create housing counseling standards that ensure the delivery of a high-value service to consumers. Existing Enterprise lending programs, such as Fannie Mae’s *My Community Mortgage* and Freddie Mac’s *Home Possible*, require housing counseling for first-time homebuyers. While these programs are important, their current scale is not sufficient to meet market challenges.

¹ Parrott, Jim, Goodman, Laurie, Li, Wei, Seidman, Ellen and Zhu, Jen. *Assessing the Proposed Housing Goals*, (October, 2014.) Urban Institute



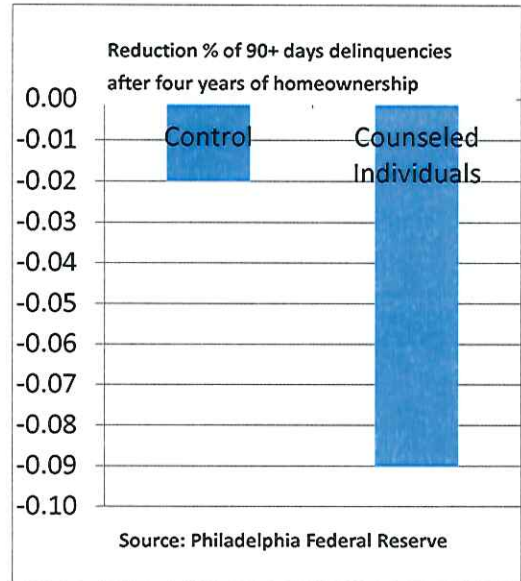
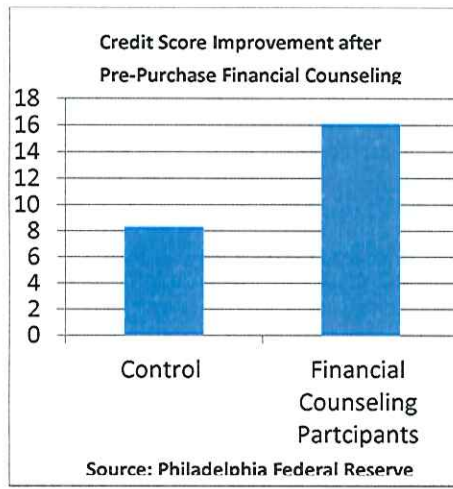
A more robust approach in leveraging the impact of housing counseling would be to incorporate counseling in the automated underwriting systems of the Enterprises; creating a “credit” for borrowers who have completed or are engaged in a housing counseling program. This credit would be applied to the credit score component of the underwriting decision, strengthening the probability that those with less than pristine credit scores would be eligible for loan approval contingent on their completion or participation in a specified program of housing counseling and coaching provided by independent, nonprofit, HUD-approved counseling agencies.

Jim Parrott and Mark Zandi noted the impact of credit score in limiting access to credit. “. . . if the average acceptable credit score declined 50 points, putting it back to where it was before the housing bubble, then the pool of potential mortgage borrowers would increase by 12.5% or more than 12.5 million households. Even if only half of these potential borrowers were to become homeowners, the impact would be significant.”² Addressing the credit score challenge plays to a strength of housing counseling that has been demonstrated in several research studies.

A five-year study by the Philadelphia Federal Reserve published in April 2014 noted the impact of pre-purchase housing counseling on the credit scores of first-time homebuyers. According to the study, “When compared to a control group, homeowners receiving the counseling had higher credit scores, less overall debt, and a delinquency rate that was seven percentage points lower than the control group after four years.”³

² Parrott, Jim and Zandi, Mark., (September, 2013.) Opening the Credit Box. Moody’s Analytics and the Urban Institute.

³ Smith, Marvin M., Hochberg, Daniel, Greene, Williams H., (April, 2014). The Effectiveness of Pre-purchase Homeownership Counseling and Financial Management Skills. Federal Reserve Bank of Philadelphia. PA



The evidence of this study and others indicates that housing counseling will improve a borrower's credit performance and can offset a perceived weakness in a borrower's credit score.

Housing counseling should also be incorporated in the loan closing process to ensure that first-time homebuyers are assisted through the mortgage closing process, confirming their ability to repay the loan and coached on managing the risks of homeownership. We believe that this independent, third-party review can also be helpful in mitigating the risk of minor reps and warranties issues for lenders and create an incentive for lenders to support the review services.

Incentives are also important in motivating borrowers to seek housing counseling. Creating a credit for housing counseling in the underwriting and closing processes should attract first-time homebuyers and drive them to complete the program. We also seek assistance from FHFA and the Enterprises in creating a new funding model that sustains these support services for homebuyers and owners.

In summary, we offer the following recommendations:

1. Create a "credit" (or compensating factor) in Enterprise automated underwriting systems for borrowers that have completed or are engaged in a housing counseling program.
2. Incorporate housing counseling for first-time homebuyers in the pre-closing review process to confirm borrower understanding of mortgage closing documentation, responsibilities and their budgeting to strengthen repayment of the loan.



3. Increase the use of housing counseling to bolster existing Enterprise programs, such as Fannie Mae's *My Community Mortgage* and Freddie Mac's *Home Possible*, and in the development of other sustainable mortgage products, such as reverse mortgage products that enable elders to age in place.

Conclusion

We encourage FHFA to drive the Enterprises to make better use of housing counseling in new homebuyer preparation, education and sustainability. Integrating housing counseling in the mortgage production process will enable more potential borrowers to overcome weaknesses in their credit profiles, bolster their understanding of the responsibilities of homeownership and be successful homeowners. Homeownership counseling has proven to empower borrowers to achieve their personal financial goals, building on the foundation of a safe, secure home. With an adroit use of housing counseling, the Enterprises will be able to serve greater numbers of low income borrowers, help insure their success and enhance prudent risk management practices.

Sincerely,

A handwritten signature in black ink that reads "David Berenbaum". The signature is fluid and cursive, with a long horizontal stroke at the end.

David Berenbaum
Chief Executive Officer

HPF Network Agencies

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