National Urban League | Empowering Communities. Changing Lives.

October 28, 2014

Division of Housing Mission and Goals
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Re: FHFA Proposed Rule 2015 – 2017 Enterprise Housing Goals

Division of Housing Mission and Goals:

The National Urban League welcomes the opportunity to comment on the Federal Housing Finance Agency's (FHFA) 2015 – 2017 proposed affordable housing goals.

The National Urban League is a historic civil rights organization dedicated to the economic empowerment of communities of color. Founded in 1910, the National Urban League spearheads the efforts of its 95 local affiliates through the development of programs, research and advocacy in 35 states and the District of Columbia.

The National Urban League's 2025 Housing Empowerment Goal is to ensure that every American lives in clean, decent, safe, affordable and energy efficient housing on fair terms. The National Urban League has provided housing counseling to almost 180,000 clients, since 2008, to this end. We are the boots on the ground for the housing needs of communities of color.

INTRODUCTION

Ensuring that all Americans have access to fair and sustainable credit opportunities is not only crucial to our economic recovery; it is the law. Pursuant to the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, the affordable housing goals require Fannie Mae and Freddie Mac (the GSEs) to provide affordable mortgage credit to underserved families and neighborhoods. The goals were created out of the need to balance the material benefits the GSEs and lenders receive from the government's role in the housing industry with providing conventional loans to qualified borrowers who are often overlooked in the marketplace.

Despite being creditworthy, oftentimes communities of color have been underserved by the housing market, targeted by predatory lenders and denied opportunities to build housing wealth. As a result, we encourage the Federal Housing Finance Agency (FHFA) to set a high "prospective benchmark level", and open the credit box to allow for a more accurate "retrospective measure", for the final rule for the 2015 – 2017 affordable housing goals to ensure communities of color have access to the American Dream.

BACKGROUND

According to Housing Economic and Recovery Act of 2008 (HERA), the single-family housing goals, which are the focus of these comments, are based on the percentage of the mortgages the GSEs purchase each year for (1) low-income families; (2) very low-income families; and (3) families in low-income areas.

The GSEs are required to consider six factors when establishing the affordable housing goals: (1) national housing needs; (2) economic and demographic conditions; (3) the size of the corresponding primary mortgage market; (4) past performance on each goal; (5) the ability of the GSEs to lead the industry; and (6) the need to maintain the sound financial condition of the GSEs.

DISCUSSION

We urge the FHFA to take into account the increase in families and communities that will be eligible for the affordable housing goals as a result of recent initiatives taken by FHFA and those proposed here by the National Urban League. As a result, the agency should strengthen its proposed 2015 – 2017 affordable housing goals to better fulfill its mission of providing affordable mortgage credit to eligible families and neighborhoods in underserved communities.

Although mortgage originations are at a 17-year low due to low household formations, resulting from high unemployment, stagnant wages, high student loan debt and a tight lending environment, among other things, FHFA has the ability to stimulate the market and create safe and sound housing demand. This demand should be taken into account when establishing the final affordable housing goals.

<u>FICO Scores/ Reps and Warrants</u>

While a prime credit score was 640 before the crisis - high enough to get a conventional loan at the lowest rates available – borrowers now need a 740 FICO for Fannie and Freddie loans, on average. This is despite a recent May 2014 Washington Post article, where executives from FICO and Vantage Score stated, “lenders’ credit-score requirements for home purchasers are too high and out of sync with the actual risks of default presented by today’s borrowers.” The Urban Institute estimates that as many as 1.2 million additional loans would have been made in 2012 alone, if normal pre-housing bubble lending standards had been in place. This is mainly a result of credit overlays where lenders increase the FICO requirements on their loans to ensure they meet the underwriting guidelines (reps and warrants) set forth by the GSEs.

We applaud FHFA for recently agreeing to clarify its reps and warrants policy. The likely result is the removal of these credit overlays, which have made access to the traditional housing market nearly impossible for most borrowers from communities of color. As the credit box opens, more low-income families and communities will be creditworthy, increasing the number of qualified borrowers the GSEs can purchase from. We urge the agency to better reflect the true impact of clarifying its reps and warrants by taking into account the increase of the number of eligible borrowers who will qualify for the affordable housing goals by increasing the final rule.

FICOs/ Housing Counseling

We encourage FHFA to integrate housing counseling into the mortgage application process and allow housing counseling to be used to make up for a borrower’s low credit profile. A recent Freddie Mac study indicates borrowers who receive housing counseling services are nearly 30 percent less likely to be seriously delinquent on their mortgage than non-counseled borrowers. Housing counseling teaches prospective borrowers how to be responsible home owners. Housing counseling could increase the number of eligible borrowers for the affordable housing goals without risking the GSEs’ safety and soundness. The 2015 – 2017 can and should be increased to take into account this likely change in FHFA policy, which would increase the number of eligible borrowers for the program.

FICO/ Ability to Repay

We would like to note that while credit scores are important, low credit scores were not the overarching cause of the financial crisis. The foreclosure crisis wasn’t caused by irresponsible borrowers; it was caused by irresponsible products. Most of the subprime loans that were approved during the late 90s and early 2000s were for people who were already homeowners, those with above average FICO scores. According to a July 2014 MSNBC article, over 60 percent of the subprime loans approved between 1998 and 2006 went to refinances, not new purchases.

The borrowers were sold products the bank knew they could not repay. Low FICO scores, among other misplaced targets, should not be scapegoated for the crisis. Based on this analysis, accepting lower FICOs would not imperil the GSEs safety and soundness, especially if FHFA allows housing counseling to be used as a compensating factor. Easing of FICO requirements would allow more low-income families and communities to qualify for the affordable housing goals therefore increasing the number of eligible borrowers. FHFA should reflect this increase by increasing the affordable housing goals in its final rule.

Down Payments/ Housing Counseling

We applaud FHFA for its recent announcement that it will work with borrowers with 97 percent loan-to-values (LTVs) if they have compensating factors to make up for their low down payment. We urge FHFA to consider housing counseling as one of the compensating factors allowing underserved communities the ability to access the traditional market. Similar to private mortgage insurance (PMI), housing counseling should be used as a compensating factor to help the borrowers who do not have the requisite down payment. Allowing borrowers with LTVs higher than 95 percent to access the market will increase the number of families and communities eligible for the affordable housing goals. FHFA should reflect this increase in its final affordable housing goals for 2015 – 2017.

Decrease in the Refinance Market

Refinances dropped by 23 percent from 2012 to 2013. As a result, banks are likely to find innovative ways to make up for the recent decrease in their refinance business. Lenders will be more inclined to open the credit box. This change will increase the number of eligible borrowers under the affordable housing goals and should be reflected in final rule.

The Affordable Housing Goals Did Not Cause the Housing Crisis

Critical to determining whether or not the affordable housing goals should be increased in the final rule is dispelling the myth that the affordable housing goals caused the housing crisis. Many blame the crisis on the affordable housing because of their mandate to serve low-income and very-low income families and low-income areas. Legislators have gone so far as to introduce legislation terminating the affordable housing goals.

However, according to the Federal Reserve Bank of St. Louis' March 2012 Working Paper Series, "Did Affordable Housing Legislation Contribute to the Subprime Securities Boom?," "it seems unlikely the affordable housing mandates caused the subprime crisis". According to the Finance and Economics Discussion Series Division of Research & Statistics and Monetary Affairs at the Federal Reserve Board, Washington DC, the "single-family mortgage purchases made by the GSEs in response to the goal were not responsible for driving the increase in the number of high-risk borrowers in the mortgage market prior to the crisis".

According to the Fiscal Crisis Inquiry Commission, the GSEs did not buy subprime products to meet the affordable housing goals, they bought subprime products out of greed, to regain market share. "The GSE's share of non-GSE subprime mortgage-backed securities increased from 10.5% in 2001 to 40% in 2004. It was the desire to gain market share that led the GSEs to actively participate in the subprime market, not the goals." The GSEs subprime purchases were higher in 2004 than they were in 2005 and after, when the goals were increased, clearly demonstrating the goals were not the impetus for their subprime purchases.

Irresponsible borrowers did not cause the crisis, irresponsible products caused the crisis. The ugly, insidious and concerted effort to blame minority and low-to-moderate income borrowers for the nation's economic woes are what I call: Financial Weapons of Mass Deception. The myth is an enormously damaging and far-reaching affront that wrongly shifts the culpability for the housing crisis from too much Wall Street greed and too little Washington oversight onto middle-class families on Main Street and Martin Luther King Boulevard.

According to the Center for Responsible Lending, during the housing boom African Americans and Latinos were three times more likely to be steered into subprime products, when they actually qualified for conventional loans. According to an analysis by First American Loan Performance, 41 percent of borrowers who received subprime loans made in 2004 qualified for a conventional loan.

In 2005 and 2006, approximately 54 percent of African Americans received subprime loans compared to approximately 17 percent of Whites, According to a recent National Fair Housing Alliance paper, the "Discriminatory Effects of Credit Scoring". African Americans' homes were 70 percent more likely to be foreclosed upon, as a result according to NAREB (the National Association of Real Estate Brokers).

We urge you to put more faith in the affordable housing goals now that the myth that the affordable housing goals caused the crisis has been dispelled. The number of eligible borrowers for the affordable housing goals should increase exponentially as a result.

CONCLUSION

We urge FHFA to strengthen its proposed 2015 – 2017 affordable housing goals to ensure the GSEs live up to their mission and take account of all the eligible families and areas that qualify.

Sincerely,

Marc H. Morial
President and CEO
National Urban League