National Fair Housing Alliance
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Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
400 7th Street, SW, 8th Floor
Washington, DC 20024

Attention: Comments/RIN 2590-AA65

Dear Mr. Pollard:

The following comments on the proposed 2015-2017 Enterprise housing goals are submitted on behalf of the National Fair Housing Alliance. Founded in 1988 and headquartered in Washington, DC, the National Fair Housing Alliance is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights groups, and individuals from 37 states and the District of Columbia. Through comprehensive education, advocacy and enforcement programs, NFHA seeks to provide equal access to housing for millions of people.

NFHA appreciates the opportunity to comment on the proposed 2015-2017 affordable housing goals for Fannie Mae and Freddie Mac ("the GSEs" or "the Enterprises"). The goals are helpful for focusing the Enterprises on meeting the housing needs of underserved groups, including low- and moderate-income people and people of color, both for affordable rental housing and for homeownership.

The GSEs have long played a crucial role in the housing market and their role has never been more critical than it is now, when the two GSE are purchasing the vast majority of the residential mortgages originated nationwide. They set the standards by which loans are made, whether or not those loans will ultimately be sold to one of them or another investor. And in doing so, they determine who will – and will not – have access to mortgage credit.

When it is done right - with affordable, sustainable mortgages - homeownership can offer a path into the middle class for millions of households in the United States, as years of experience has demonstrated. Households have used the wealth built up over time in the form of home equity to send their children to college, start or expand small businesses, weather economic upheaval, pay for retirement, and pass along wealth to the next generation. In these and other ways, homeownership has substantial benefits not just for individual homeowners, but for the economy overall.

Unfortunately, not all households in the US have had the same access to homeownership. The homeownership rates for African American and Latino households have lagged behind those of White households, and those disparities increased as a result of the foreclosure crisis. According to the Census, as of the third quarter of this year, 72.6% of White households own their homes, while only 42.9% of African American households and 45.6% of Latinos are homeowners.[1]

Homeownership has been a particularly important source of household wealth for families of color, and that wealth has been drained away in recent years as the result of the subprime lending that flooded communities of color and the resulting foreclosure that were concentrated in those communities. The Pew Research Center has calculated that during the height of the crisis, from 2005-2009, White families lost 12% of their household wealth due to declining home values and evaporating home equity. In contrast, African American households lost 53% of their household wealth and Latinos lost 66%.[2] Much work will be required to help these communities recover their homeownership levels in order to regain their lost wealth, and the GSEs have an important role to play in this effort.

Unfortunately, however, in recent years, the GSEs have not served communities of color well. According to ComplianceTech, between 2004-2009, on average more than 81% of the loans purchased by Fannie Mae and Freddie Mac were loans to Whites. Less than 5% were loans to African Americans, 5.4% went to Asians, and 8.1% to Latinos.[3] In 2013, according to NFHA's analysis of the HMDA data, 72% of the loans purchased by the GSEs were made to Whites, 3.3% to African Americans, 7% to Asians, and 6.4% to Latinos. Clearly there is considerable room for the GSEs to improve their performance in communities of color.

Affordable rental housing is also critical to families and to our national economic well-being. Homeownership has clear benefits, but is not the right choice for all households

[1] See "Homeownership Rates by Race and Ethnicity of Homeowner: 2010 to 2014," available at http://www.census.gov/housing/hvs/files/currenthvspress.pdf.
[2] Kochhar, Rakesh, Richard Fry and Paul Taylor, "Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics: Twenty-to-One," Pew Research Center's Social & Demographic Trends, July 26, 2011
[3] http://compliancetech.com/wp-content/uploads/2013/11/The-Foreclosure-Crisis-and-Racial-Disparities-in-Access-to-Mortgage-Credit-2004-2009-_2-9-2011.pdf

at all points in their lives. The availability of affordable rental housing is critical to serve those households for who do not choose or cannot qualify for homeownership. Access to affordable rental units also makes it possible for renters to save, so that they can accumulate the funds necessary for the variety of purposes – education, entrepreneurship, retirement, and possibly homeownership – that support economic stability and prosperity.

The affordable housing goals are one of the tools that the Federal Housing Finance Agency (FHFA) has to shape and direct the way the GSEs use their influence in the mortgage market. In setting the goals, FHFA must be mindful of the roles envisioned and obligations established for the GSEs in their charters and in other relevant statutes and regulations. These include maintaining liquidity in the mortgage market, ensuring the flow of mortgage credit to underserved borrowers and communities, and operating in a manner that is non-discriminatory and affirmatively furthers fair housing. As our country's diversity increases, so does the importance of fulfilling these mandates. 7 out of 10 new households formed over the next decade will be households of color.[4] Ensuring that these households are treated fairly in the mortgage market is not only a legal requirement; it also makes sense from a business perspective, as the future of the mortgage market depends on their active participation.

Single family goals

FHFA has asked for comment on how to determine whether the GSEs have complied with the single family affordable housing goals. One option is to continue to use the current two-pronged approach, which considers both FHFA's projections of how the market will perform (the "benchmark test," which is a prospective measure) and how the market actually performs, based on Home Mortgage Disclosure Act (HMDA) data (the "market test," which is a retrospective measure). The GSEs are considered to have complied with their goals requirements if they meet or exceed either one of these measures. The second option is to use only one of these methods.

NFHA recommends that FHFA continue its current practice of using a two-pronged approach to determine compliance with the goals, setting goals based on both the benchmark and the market test. They serve as useful counterpoints to one another. It can be difficult to predict the level of activity the market will produce, particularly under the current, dynamic market conditions. Goals based on projections that are too high may be impossible to achieve. Goals based on projections that are too low have

[4] "The State of the Nation's Housing 2013," Joint Center for Housing Studies of Harvard University, available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2013.pdf

little impact. On the other hand, eliminating the benchmark projection and setting goals solely on the basis of how the market actually performs would eliminate any incentive for the GSEs to lead the market by offering products and initiatives that expand access for underserved groups, such as communities of color and low- and moderate-income people. This is particularly true now, since the GSEs make up the lion's share of the market. Using both approaches together strikes an appropriate balance. In doing so, however, NFHA urges FHFA to set stretch goals under the benchmark measure. This does not mean the GSEs should take imprudent actions, but rather that they should be pushed to ensure that they deploy their full range of resources, including product development, pricing and marketing, to ensure that capital flows across the full breadth of the market, and particularly to creditworthy borrowers who are currently shut out of access.

In addition, NFHA strongly urges FHFA to take a different approach to determining compliance with the affordable housing goals. It should expect the GSEs to meet *both* measures, benchmark and market, and not just the lower one, whichever that may turn out to be in any given year. Doing otherwise undermines the impact of the goals if FHFA's projections turn out to be too modest, or if the market is failing to serve important market segments. If either GSE falls short on either measure, FHFA has a range of options available to address that shortfall, and it can either adjust the benchmarks or require corrective action as appropriate.

Multi-family goals

While much attention is focused on the GSEs' single family goals, the multi-family goals are often little-noticed. Yet rental housing, including multi-family developments, is a critical resource for US households. In 2004, 31% of US households were renters. By 2012, that number had risen to 35%, or some 43 million households nationwide. The US will likely see an increase of 4 to 4.7 million renter households by 2023, virtually all of whom are households of color.[5]

In many communities rents are under tremendous upward pressure, in part because of the increased demand for rental units and the limited rental inventory available. Families who lost their homes to foreclosure and now must rent make up part of the increase in demand. Younger households, many of whom are burdened with student debt and cannot qualify or do not wish to take on mortgages, represent another portion of the demand. Many of these households bear a significant cost burden, with 50% of

[5] "America's Rental Housing: Evolving Markets and Needs," Joint Center for Housing Studies of Harvard University, December 9, 2013, available at: http://www.jchs.harvard.edu/americas-rental-housing.

renters paying more than 30% of their income for housing, and nearly 30% paying more than half of their income for rent.[6] These statistics underscore the severity of the affordable rental housing shortage. The GSEs have a very important role to play in helping to expand the supply of rental housing, particularly affordable rental housing, for all of these households.

Given this need and the GSEs' capacity, NFHA believes that the multifamily goals that FHFA has proposed are too low. In each year since 2010, each of the GSEs has not only met but exceeded the multifamily goals that have been set. In some cases they exceeded the goals by quite substantial amounts. Setting the goals so low undermines their utility and NFHA encourages FHFA to be more ambitious in setting the multi-family goals for 2015-2017.

We support FHFA's proposal for sub-goals for small multi-family properties, those with between 5-50 units. This is an important segment of the multi-family rental market, particularly as these units are often among the more affordable, even without subsidies, and it is important to ensure that capital is available for these properties.

Establish a multiplier for certain affordable housing units

In addition, we recommend that FHFA take steps to encourage the GSEs to support the development of affordable rental units in communities where such units are in short supply. A significant share of our country's affordable housing, including units that are subsidized under federal or other programs, is located in communities that are low-income and often highly segregated by race and national origin. Many of these communities lack access to good jobs, good schools, good transportation and the like – the kinds of assets that provide access to opportunity. While these inequities must be addressed, it is also important to expand the housing options available to households who wish to move to communities that offer better schools, jobs, transportation and other amenities. Fannie Mae and Freddie Mac can play a role in expanding this access, and the goals can provide a vehicle for encouraging them to do so. We suggest that FHFA establish a multiplier for the GSEs' financing of affordable units in low poverty/high opportunity neighborhoods, giving them credit for 1.25 units for each qualifying multi-family rental unit financed in such communities. A model for this approach can be found in the multiplier for small multifamily rental properties that was used in the 2000-2003 goals.

[6] Ibid.

Several approaches could be used to define communities in which the multiplier could be used. One possibility would be to use the obverse of the definition for the single family goal for low income families in low income areas. That definition applies to families with incomes less than or equal to area median income who reside in census tracts with a minority population of at least 30% and a tract median income of less than 100% of area median income. For the purposes we are proposing here, one could apply the multiplier to affordable units located in census tracts with a minority population of less than 30% and a tract median income of 100% or more of area median income.

A second possibility is to use the small DDAs (difficult development areas, or SDDAs) that HUD is developing for use under the Low Income Housing Tax Credit (LIHTC) program. They are scheduled to go into effect in 2016, but HUD has the methodology in place now and has generated a list of "hypothetical" SDDAs for use in other situations. These SDDAs are designated by zip code, so they are far more granular and geographically dispersed than the DDAs currently used for LIHTC purposes. Moreover, they are calculated in part based on small area fair market rents, making them more sensitive to the variations in rents in different parts of a metropolitan area, thereby addressing a problem that some have identified with FHFA's current definition of affordability.

Further research would be useful to determine which of these definitions, or what other alternative definition, would best achieve the purpose of expanding affordable housing in "high opportunity" areas.

Finally, we note that adopting a multiplier for affordable rental housing in "high opportunity" areas where it is currently lacking would align FHFA policy with that of another important federal agency in the housing space, namely the Department of Housing & Urban Development (HUD). HUD is in the process of finalizing new regulations to implement the "affirmatively furthering fair housing" provisions of the Fair Housing Act. These regulations, which are expected to take effect next year, will focus greater attention on the lack of affordable rental housing in what HUD terms "high opportunity" communities, and presumably spur higher demand for such development. By giving the GSEs an incentive to develop appropriate products to serve this need, and to develop relationships with the lenders who work in such areas, FHFA can help smooth the path to creating these expanded housing opportunities and the benefits that will flow to their occupants and the larger community.

Conclusion

In summary, NFHA encourages FHFA to set and enforce the affordable housing goals for 2015-2017 in a manner that reflects the important role that Fannie Mae and Freddie Mac play in the mortgage market, leverages their resources in a manner consistent with the obligations of their charters and other relevant statutes, and expands access to responsible, sustainable credit for both homeownership and affordable rental housing. In addition, we urge FHFA to be mindful of the changing demographics of the country and the need to ensure that the GSEs help meet the needs of all Americans, including our growing communities of color, who will be the majority in the near future. To accomplish this, FHFA must align its policies with the fair housing policies of HUD, which are aimed at both eliminating discrimination from the housing market and also affirmatively acting to expand housing opportunities.

Thank you for the opportunity to submit these comments. If you have questions or need further information, you can contact me at 202-898-1661 or dgoldberg@nationalfairhousing.org.

Sincerely,

Deborah Goldberg
Special Project Director
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