October 28, 2014

Mr. Alfred M. Pollard
General Counsel
Attn: Comments/RIN 25690-AA65
Federal Housing Finance Agency
Eighth Floor
400 Seventh St. SW
Washington, DC 20024

Re: Enterprise Housing Goals Proposed Rule

Dear Mr. Pollard:

On behalf of the undersigned community, civil rights, and consumer organizations we would like to thank you for the opportunity to submit input regarding the Federal Housing Finance Agency's (FHFA) proposal concerning the Affordable Housing Goals for Fannie Mae and Freddie Mac (the "GSEs").

Americans for Financial Reform ("AFR") is a coalition of more than 200 national, state, and local groups who have come together to advocate for reform of the financial industry. Members of AFR include consumer, civil rights, investor, retiree, community, labor, faith based, and business groups.

The Center for Responsible Lending (CRL) is a nonprofit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. Self-Help has provided $6 billion in financing to 70,000 homebuyers, small businesses, and nonprofits and serves more than 80,000 mostly low-income families through 30 retail credit union branches in North Carolina, California, and Chicago.

Founded more than 105 years ago, in February of 1909, the National Association for the Advancement of Colored People, the NAACP, is our nation's oldest, largest, and most widely-recognized grassroots based civil rights organization. We currently have more than 2,200 membership units across the nation, with members in every one of the 50 states.

The National Council of La Raza (NCLR) is the largest national Hispanic civil rights and advocacy organization in the United States, an American institution recognized in the book Forces for Good as one of the best nonprofits in the nation. NCLR works with a network of nearly 300 Affiliates—local, community-based organizations in 41 states, the District of Columbia, and Puerto Rico—that provide education, health, housing, workforce development, and other services to millions of Americans and immigrants annually.

The Leadership Conference on Civil and Human Rights is the nation's oldest and most diverse coalition of civil rights organizations. Founded in 1950 by Arnold Aronson, A. Philip Randolph, and Roy Wilkins, The Leadership Conference seeks to further the goal of equality under law through legislative advocacy and public education. The Leadership Conference consists of more than 200 national organizations representing persons of color, women, children, organized labor, persons with disabilities, older Americans, the LGBT community, and major religious groups.

The proposed rule seeks comment on how to structure and determine compliance with the housing goals. First, we thank the FHFA for its efforts to improve strategies to ensure those from lower wealth communities have access to the market and homeownership. While we endorse the multifamily proposals set forth by the Center for American Progress and the Consumer Federation of America, we provide our own comments addressing the proposals regarding single family purchase goals. While we support the FHFA's efforts, we believe that the tests proposed would set unnecessarily low goal standards and would not be effective at reaching higher percentages of groups seeking access to homeownership.

- First, we note that the affordable housing goals are part of the FHFA's clearly laid out mission to reach underserved communities and that increasing access to mortgage credit for these communities is essential to the housing recovery.
- Second, we recommend that the FHFA maintain the two-part test, and strongly urge that the FHFA set a higher benchmark standard and require that both standards be matched or surpassed.
- Third, we argue that the related issue of how FHFA addresses findings of failure to meet a metric is critical and recommend the FHFA, where appropriate, fully enforce procedures included in HERA when housing goals are not met.
- Fourth - We recommend the FHFA establish higher benchmarks than those proposed, as warranted by prior historical performance. Specifically, we recommend setting the Low Income Borrower Home Purchase Goal at 27%, the same level as the benchmark for 2010-2012.

I. FHFA Has a Clearly Laid out Mission that Includes the Duty to Reach Underserved Communities.

As Director Watt has rightfully noted[1], under the Housing and Economic Recovery Act of 2008 ("HERA"), FHFA and the GSEs have a duty to ensure that borrowers from traditionally underserved and/or excluded communities will have access to the mortgage market. [2]

We note that the obligation of the GSEs to serve the entire market and ensure that underserved borrowers (including those from rural, African-American and Latino communities, prospective first time homeowners, millennials, and low and moderate-wealth households) have access to responsible forms of mortgage credit is critical.[3] FHFA and the GSEs also have an explicit duty to broadly increase liquidity in the mortgage market. Not only is this obligation addressed by statute, it is

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[1] Comments *available at*
http://www.brookings.edu/~/media/events/2014/5/13%20future%20fannie%20mae%20freddie%20mac/20140513_fhfa_watt_housing_transcript.pdf.

[2] Housing and Economic Recovery Act of 2008, P. Law 110-289, Section 1229(a)(1)
" Duty to Serve Underserved Markets-
(1) Duty—To increase the liquidity of mortgage investments and improve the distribution of investment capital available for mortgage financing for underserved markets, each enterprise shall provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low-, and moderate-income families….."

[3] Stated in a coalition letter ("Coalition Letter") to the Senate Banking Committee, *available at*
http://www.responsiblelending.org/mortgage-lending/policy-legislation/2014-Civil-Rights-Groups-Comments-to-Senate-Banking-Comm-on-Housing-Finance-Reform-Bill-Feb-24.pdf

essential to the recovery of the housing market and the US economy. FHFA should continue to invest as much effort as possible to ensuring access to responsible credit for more communities, as many of the groups described above will constitute the majority of the housing market in the near future.[4]

In addition to HERA, a series of federal laws, regulations and executive orders form a strong regulatory framework aimed at ensuring non-discrimination in the housing and mortgage markets. These include the Fair Housing Act,[5] the Equal Credit Opportunity Act,[6] the federal charters of Fannie Mae and Freddie Mac[7], the Federal Housing Enterprises Financial Safety and Soundness Act and its implementing regulations, and several Executive Orders. Further, where federal funding is involved, whether in the form of loans, insurance or -- as in the case at hand -- guarantees, any federal agency administering such funds has an obligation to take affirmative steps to further fair housing. This framework underscores the priority that Congress has placed upon fair access to housing, including mortgage lending. [8]

Communities in underserved markets have been deeply harmed by irresponsible lending in the last decade. In the lead up to the economic and housing crisis, African Americans and Latino borrowers were more likely than similarly situated whites to receive mortgages with toxic features, even when also eligible for safer loans.[9] Households from underserved communities suffered a massive loss of generational wealth due to reckless and irresponsible lending and the resulting housing crisis.[10] Policymakers responded by putting in place new Qualified Mortgage rules that prevented high-cost, poorly underwritten mortgages from being made in the future, and removed yield spread premiums and other incentives that led lenders to target people of color and lower wealth families for predatory mortgages.[11] However, they have not been able to undo the damage from past loans and many borrowers still face significant and unnecessary barriers to homeownership, including undue requirements from the GSEs.

Today, rather than remediate the damage done by subprime lending and its disproportionate impact on communities of color, overcorrections in the market have instead closed off lending options for

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[4] JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY, THE STATE OF THE NATION'S HOUSING 2014, *available at* http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/sonhr14-color-full.pdf.

[5] 42 U.S.C. 3608(d). The Fair Housing Act makes it clear that all federal agencies that have programs or activities that relate to housing and community development have an affirmative obligation to promote fair housing.

[6] 15 U.S.C. Sec. 1691 et seq. Prohibits discrimination in any credit transaction based on, among other things, race, color, religion, national origin, sex or marital status, age (provided the applicant has the capacity to contract).

[7] See Sec. 301(n)(2)(G) of the Fannie Mae charter and Sec. 307((f)(2)(G) of the Freddie Mac charter. According to their charters, the GSEs are also required to "assess underwriting standards, business practices, repurchase requirements, pricing, fees, and procedures, that affect the purchase of mortgages for low- and moderate-income families, or that may yield disparate results based on the race of the borrower, including revisions thereto to promote affordable housing or fair lending."

[8] See Coalition Letter, *supra* note 2.

[9] For example, African-American and Latino borrowers with FICO scores above 660 were three times as likely to have a higher interest rate mortgage as white borrowers in the same credit range.

[10] See Allison Freeman and Janneke Ratcliffe, *Setting the Record Straight on Affordable Homeownership* (May 2012) at 4- 8; see also Christopher Herbert, Daniel McCue, and Rocio Sanchez-Moyano, *Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?)*, Joint Center for Housing Studies, Harvard University at 48 (September 2013), (stating that "[o]verall, owning a home is consistently found to be associated with increases of roughly $9,000-$10,000 in net wealth for each year a home is owned. . . . ") *available at* http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/hbtl-06_0.pdf

these communities. According to 2013 Home Mortgage Disclosure Act ("HMDA") data, only 29% of home-purchase loans to African Americans and 37% of home-purchase loans to Latinos were conventional loans, compared to 65% of non-Hispanic Whites. In addition, of the 1.6 million conventional purchase loans, only 2.3% went to African-Americans and 4.4% to Latinos.[12] The 2012 HMDA data showed similar low levels of lending to people of color and low income families. The HMDA data reflects that many borrowers from communities of color and low and moderate-income families are not being well served by the GSEs.

One reason the conventional market is struggling to serve communities of color and low to moderate-income families is that credit is more constrained now than it has been in a generation. Since the financial crisis, many lenders and the GSEs have limited lending and increased prices for borrowers with lower credit scores. Borrowers of color, low and moderate-income families, and first time homebuyers tend to have both lower FICO scores and fewer resources to put towards a down payment. As a result, eligibility limits and pricing based on FICO scores and Loan-to-Value ("LTV") ratios serve as barriers to homeownership for these borrowers.

Evidence of this can be seen in the increase in the median credit score for all new purchase originations to 749, rising 43 points in the last decade.[13] Furthermore, less than 10% of loans were made to borrowers with FICO scores below 660, even though about a third of the population has a credit score in this range.[14] The Urban Institute calculated that, as result of tight restrictions based on credit score, 1.2 million fewer loans were made in 2012 than would have been expected based on historically safe lending standards.[15]

II. Maintain the Dual Part Test, but Both Standards Must be Met and Enforced.

The proposed rule seeks comment on how to structure and determine compliance with the housing goals. There are two different metrics considered for the compliance standard: the market metric, that is whether the GSEs meet the percentage of affordable lending in the overall relevant market; and the benchmark metric, whether the GSEs meet a percentage of affordable loans that is set based on market projections, GSE credit policies, and other factors. **We recommend these components be designed to work together in the dual market test to carry out FHFA's duty to serve low and moderate income families.** We also recommend two other considerations for application of the tests. The test must first be appropriate for the projected persistence of this highly atypical housing market over the next three years. Second, the test must consider the related issue of how FHFA responds to findings of noncompliance, after determining how the goals are structured and how compliance is determined.

A. A Market Metric Goal Alone is Circular and Insufficient.

The market metric measures how the GSEs are performing compared to other market entities. We find that reliance only on the market metric is an inadequate measure of the performance of the

[12] 2013 Home Mortgage Disclosure Act ("HMDA"), *available at* http://www.federalreserve.gov/pubs/bulletin/2014/pdf/2013_HMDA.pdf.
[13] URBAN INSTITUTE, HOUSING FINANCE AT A GLANCE: A MONTHLY CHART BOOK OCTOBER 2014 AT 14, *available at* http://www.urban.org/UploadedPDF/413271-Housing-Finance-Chartbook.pdf.
[14] Id., Jim Parrott and Mark Zandi, Opening the Credit Box, *available at* http://www.urban.org/publications/412910.html.
[15] LAURIE GOODMAN ET. AL. WHERE HAVE ALL THE LOANS GONE? THE IMPACT OF CREDIT AVAILABILITY ON MORTGAGE VOLUME, *available at* http://www.urban.org/uploadedpdf/413052-where-have-all-the-loans-gone.pdf.

GSEs, due to their historically high percentage of the conventional market and dominance of that market.[16] Given the expectations of a continued atypical market; the GSEs' book of business <u>is</u> the market over the next three years.[17] The market test has inherent circularity in it; the bar is largely set by the GSEs regardless of their progress or failure to provide reasonable access to affordable home loans. In this hyper-GSE dominated market, meeting the test largely becomes guaranteed. This can be seen in the performance of the GSEs relative to the market in 2010-2012. In what analyst-consensus shows were abysmally low levels of GSE affordable housing lending, the GSEs were very close to meeting the market level for affordable housing loans, with Fannie Mae at 99% of the market goal and Freddie Mac at 98% of the market goal. Given their market dominance, if the GSEs even marginally improve their affordable housing lending over the next three years, they are certain to meet the market goals even though affordable housing lending would remain at severely depressed levels. As discussed further below, the GSEs' meeting the market metric, and by how much, should be relevant factors in evaluating the GSEs' performance. However, deeming the GSEs to meet their affordable housing goals by merely meeting the market over the next three years would eviscerate the housing goals and their utility.

B. <u>A Benchmark Metric Goal Alone is Also Insufficient.</u>

The benchmark metric is essential in the GSEs' lending policies. Over the last five years, the FHFA and GSEs' focus has understandably been on restoring the financial stability of the enterprises. As we discuss above, a consequence of this focus has been excruciatingly tight lending standards that have depressed affordable lending for the GSEs and the whole market. The GSEs have stabilized their finances and returned to profitability. Now it is time for them to fulfill their other statutory duty, to provide credit to the broad housing market with emphasis on the depressed affordable housing. Meeting an appropriate benchmark goal must be part of FHFA's oversight of the GSEs.

There have been various criticisms of a benchmark metric. We think that they in fact speak to <u>how</u> the goal should be administered and utilized in the evaluation of the GSEs' affordable housing goal, not <u>whether</u> such a goal should be set and enforced. For example, it is argued that external conditions could change, making it harder to reach a benchmark goal. However, this is inherent in any goal setting, and FHFA is well equipped to respond fairly to that scenario through its authority to retroactively adjust the goal and/or to formulate any response to a failure to meet the goal. This same flexibility applies to and addresses the argument that FHFA could set the goal inappropriately high. Most important, for the benchmark metric to be effective it must be a required part of the evaluation of whether the GSEs met their affordable goals, rather than an alternative to the market test, which is a lax standard for the expected market.

C. <u>For Housing Goals to be Met, Both Metrics Must be Matched Under the Dual Test.</u>

The key question is how the two metrics should interact. It is clear that if an enterprise fails both metrics, then they have failed to meet their housing goals. It is likewise clear that if they pass both metrics, they have met their housing goals. The question is what results when an enterprise passes one metric and fails the other. As shown in the discussion above, the market metric is inherently

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[16] FHFA Enterprise Goals Request for Comment at 15, *available at* https://www.fhfa.gov/SupervisionRegulation/Rules/RuleDocuments/Enterprise_Goals_Proposed_Rule_8-29-2014.pdf.

[17] We find that this can and hopefully will change over the succeeding years, but consensus industry predictions do not foresee substantial changes in this GSE market dominance over the next three years.

subject to being circular. This is particularly the case at this time as the GSEs are presently three fourths of the conventional market. It is guaranteed that the GSEs will meet the market metric in the coming years by simply removing a few of their barriers to affordable housing lending. For these reasons, to meet the housing goals, the GSEs should have to meet **both** the market and benchmark metrics to pass the goal.

That said, the meeting of the market metric and by how much the GSEs exceed the market should be a significant factor in evaluating the GSEs' performance on the housing goal. For example, if the GSEs are substantially above the market, that is strong evidence that they are striving to provide affordable housing. On the other hand, if they are one tenth of one percent above the market, this provides little evidence in the current environment that they are making substantial progress in returning reasonable accessibility to the market.

The GSEs' meeting of the market metric, and by how much, should be an important consideration in the FHFA's evaluation of a failure to meet the benchmark goal and its determination of what remedial or enforcement steps, if any, are appropriate. This approach provides the FHFA the tools and flexibility to effectively and fairly evaluate the GSE's performance relative to the two metrics. This flexibility is inherent in the entire goals process. For example, if the GSEs fail the benchmark badly without a good explanation, that should not be treated the same as missing the goal by a tenth of one percent with evidence of good effort. Again, FHFA would use its discretion to respond appropriately to the two very different scenarios. Conversely, the alternative approach of declaring any meeting of the market metric to be a meeting of the housing goals is unduly rigid, and it deprives the FHFA of the tools necessary to carry out its statutory duty of ensuring credit is available to qualified borrowers. If exceeding the market metric by any amount at all constitutes meeting the housing goals, it creates a bright line loophole for the GSEs. This would nullify the benchmark metric for the coming years and render the housing goals a false promise for the tens of thousands of low and moderate income families that are being wrongly denied access to government-supported GSE home financing.

D. <u>FHFA Should Exercise its Statutory Authority to Enforce the Goals.</u>

In past years, the enterprises have frequently failed to meet particular goals and sub-goals, or the affordable goals plans have been determined to be infeasible. Moving forward, we recommend that FHFA more fully enforce processes that will allow for detailed examination of failed or infeasible goals, and a detailed plan, where appropriate, for improvement for the following goals period. A critical examination will facilitate more efficient planning and responsible enforcement of future goals. FHFA has the statutory authority[18] to enforce procedures and where necessary to impose civil and monetary penalties for when housing goals are not met. Funds from potential penalties are directed to the established Housing Trust Fund. Assertively enforcing this policy will provide reasonable incentives to maintain a commitment to actually meet the goals, and to formulate action plans for improvement when needed.

We recommend that the FHFA exercise this statutory authority to enforce housing goals and provide real action and consequences for when goals unjustifiably are not met. Follow up reporting and civil penalties (where necessary) will also help FHFA and the enterprises to improve future goal setting when failures receive proper examination. Directing civil penalties to the Housing Trust Fund will

[18] P. Law 102-550, the Housing and Community Development Act of 1992, Secs. 1336-1349, P. Law. 110-289, the Housing and Economic Recovery Act of 2008 Sec. 1345.

be an appropriate use of potential monetary penalties. An efficient housing goals enforcement system will help improve enterprise goals performance, which will benefit the communities that these goals are meant to reach.

III. Single Family Purchase Benchmark Levels Should be Higher.

A review of the forecasting model and historical affordable lending levels shows that the proposed benchmark levels are too low and that FHFA should set higher benchmark metrics. We focus our analysis and recommendations on the first, and most comprehensive, goal – the Low Income Borrower Home Purchase Goal. In determining the benchmark metric, it is critical to start with recognition of the current extraordinary circumstances in the housing market. As many have observed, the housing market has just experienced a hundred year storm, unprecedented in our lifetimes. Some of the results of this have been the GSEs' tightening credit to the most restrictive levels in a generation, with resulting suppression of affordable housing levels. As a result, the GSEs have become not just the dominant, but virtually the only secondary market option for conventional loans. These once-in-a-lifetime circumstances have profound impacts on assessing the methodology used to set the benchmark metric and the resulting benchmark goal.

FHFA's proposed benchmark goal is determined based on a forecast model. However, the accuracy of the model's predictions is seriously compromised by the very atypical conditions in the current and recent housing market. This results in goals that are unjustifiably low. In addition, historically, the GSEs have maintained lending to low-income purchasers at levels above those that FHFA has proposed, and above the levels predicted by the model for 2015-2017. As shown below, a higher benchmark of goals is needed due to the limitations of the model and the evidence of the GSEs' historic performance.

We recommend setting the Low Income Borrower Home Purchase Goal at 27%, the same level as the benchmark for 2010-2012.

<u>Extraordinary Circumstances Substantially Limit the Usefulness of FHFA's Model in Setting Goals for the Next Three Years.</u>

The FHFA's forecast model looks at a number of economic factors[19] and fits a model that explains the level of affordable housing based on these factors for the period of 2004-2014. The model is then used to predict future levels of affordable housing based on predicted values of the underlying factors. However, the applicability of the model to the current goal setting is undermined by the grossly atypical outlier housing market, and by the fact that the model excludes important exogenous factors. Finally, we show below that the fact that the model produces wide confidence intervals does not justify setting a lower benchmark goal.

A. <u>The Base Data is not Representative of the Long Term Housing Market.</u>

In order to predict the level of affordable housing for the coming three years, FHFA's model looked at various economic factors over the past decade and determined a model that explains the level of

[19] A complete description of the model and the factors is in *The Size of the Affordable Mortgage Market: 2015-2017 Enterprise Single-Family housing Goals, available at* http://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/SFHG_Market_Size_2014_08_revised.pdf.

affordable housing based on those factors. A key assumption underlying this method is that the past decade reflected typical relationships between these factors and the level of affordable housing. The past decade, however, has been anything but a typical housing market.

The model used to set the level of the Low Income Borrower Home Purchase Goal is most sensitive to interest rates, mortgage rates, unemployment, home prices and existing home sales. In this case, the model predicts a reduction of affordable housing for the upcoming years, essentially finding that the effect of predicted rising home prices and interest rates will more than offset predicted reductions in unemployment.[20] In doing so, the model implicitly assumes that the relationships between these factors and affordable housing over the past ten year were typical, e.g. "representative" of the housing market. However, this has been anything but the case. For example, interest rates have reached historic lows and home prices rose and fell dramatically between 2004 and 2014. Additionally, lenders extended credit liberally during the subprime boom years included in the model (2004-2007) and also tightened credit significantly in the years during and following the Great Recession also included in the model (2008-2013).

One of the most important past market conditions that distorts the model's prediction is the severe restriction of credit imposed by the GSEs since 2008. As a result, record low interest rates and housing prices in the last five years were correlated by the model with artificially low levels of affordable housing. This model then in turn wrongly predicts that future affordable housing will be well below historic levels when interest rates and housing prices modestly increase, notwithstanding they are predicted to still be at very affordable levels. Instead of accurately correlating interest rates, house prices, and lending levels, the model assumes that the relationships in the past years were typical and will continue. It is clear that the model's prediction is flawed in these circumstances because the very same entities providing the predictions of future interest rates and house prices are also describing the next years as favorable for housing affordability. This projection is the exact opposite of the model.

The relationships observed between these economic factors over these years will not be the same as the relationships between these same factors in more normal times. The impact of having such extraordinary periods in the base profoundly affects outcomes. For example, if one predicted October rainfall in New York City based on the last decade, which included the once in a century storm Sandy, one would get a very distorted and inaccurate prediction of future rainfall.

B. Critical Factors That Apply to the Next Three Years Are Not Captured In the Model.

Another assumption underlying a reliable predictive model is that there are not additional factors (exogenous factors) that will significantly affect the future but are left out of the model. This assumption does not hold. In particular, the model does not take into account any factors that explain the impact of GSE policies on the market that are likely to profoundly affect the market for low income borrower purchase loans in particular over the next few years.

The first of these is the historic change in the GSE buy back/reps and warrants policies. Lenders have repeatedly argued that in recent years the GSEs' buyback policies were the primary factor driving them to add credit overlays that excluded many low and moderate income families. Lenders argued they could not make any loans with increased, though still historically very modest, risks of default because of risk of buybacks. Just recently, the FHFA announced profound changes to this

[20] Id., at Table 6 and Figure 8.

policy that dramatically reduce buyback risk. This significant change is not captured in the model, and not doing so results in a substantial under-estimate of future affordable housing.[21]

A second historic factor that is not captured, and could not be captured, in the model is the GSEs' current unprecedented dominance in the conventional market. In normal periods, the GSEs have substantially less impact on the market as lenders have multiple options for the sale of their conventional loans. At present, however, the GSEs are effectively the only option for these loans. This enables them to greatly impact the mix of loans that lenders produce, as many lenders will not originate loans they cannot sell into the secondary market. Just as this dominance in the last few years resulted in affordable housing being dramatically depressed – the tightest credit in a generation –the same dominance enables the GSEs to dramatically increase affordable housing going forward.

Not including these factors that will profoundly impact the affordable housing market over the next three years invalidates the model's prediction. Each of these factors by itself is expected to substantially increase future affordable housing. Together, they fundamentally change the market, yet the model was not constructed to incorporate historic changes of this nature. While the model is designed for predicting lending levels in markets driven by typical factors, it substantially under predicts lending in the current situation..

C. <u>The 95 Percent Confidence Level Test Does Not Justify A Conservative Benchmark.</u>

The model predictions include 95% confidence levels for the predictions and these show a wide range of possible levels of affordable housing, including as low as 10.8%. Some have suggested that is a reason to set conservative benchmark levels. This suggestion is unsupported. A 95% confidence level means that one would expect that the prediction to be within the stated range 19 out of 20 times. This means that the model has to take into account scenarios such as severe recessions, and one could occur in the next 20 years. However, this is not a reasonable standard for setting goals. For example, if one were setting goals for the next three years for a salesperson, one would not depress the goals simply because there was a one in twenty chance of a recession. Rather, one would set the goals based on the most likely level that can be met with substantial effort, and adjust them if significant outside conditions changed. FHFA should follow this same approach; it should set the goals based on the most likely level that can be met with substantial effort, using its authority to subsequently change the goals and utilize its wide discretion to decide what, if any, steps to take if the goals are not met.[22]

D. <u>Historic Performance Justifies Higher Benchmark Goals.</u>

Evidence of the model's flaws can be seen in looking at the historic data on affordable housing purchase loan levels. Periods with economic factors similar or less favorable than those predicted for 2015-2017 resulted in much higher levels of affordable housing. It is noteworthy that while some of the most important factors in the model predicting Low Income Borrower Home Purchases, such as interest rates and home prices, are expected to increase over the next three years, they will still be at

[21] One of the factors in the model is the survey of loan officers for future credit standards, but this does capture this recent historic change, and was not a significant factor in the model's prediction.
[22] As discussed above, including the once in a lifetime data of the great recession produces a nonrepresentative sample for the model. One consequence of this is that it substantially increased the size of the 95% range of predictions, just as including Sandy data in the base for rainfall predictions would dramatically increase the range of predictions of future rainfall

very favorable levels historically, and they will be at least as favorable or more favorable than the numerous years when affordable housing lending levels were much higher. Historic performance under a range of credit and business conditions shows that the GSEs are able to meet higher goals under a variety of different housing market conditions. Figure 1 shows that in nearly every case, the lending of Fannie and Freddie exceeded the benchmark proposed by FHFA for 2015-2017 (23%), including the record right credit markets of recent years.

Figure 1: Low Income Borrower Percent of Home Purchase Mortgages 2001-2013[23]

	Fannie Mae	Freddie Mac
2013	23.80%	21.80%
2012	25.60%	24.40%
2011	25.80%	23.30%
2010	25.10%	26.80%
2009	25.50%	25.40%
2008	23.10%	24.30%
2007	26.00%	24.60%
2006	27.70%	22.10%
2005	*unavailable*	
2004	29.10%	24.80%
2003	29.00%	24.90%
2002	27.00%	24.90%
2001	24.60%	24.30%

It is clear that a more reliable method for setting the goals would be to look at typical historic levels of affordable housing in economic markets that match the predictions for the future three years, rather than setting such levels based on a model that is based on the experience of an extraordinary period of the housing market. When this is done, the data supports a benchmark equal to that for 2010-2012 of 27%.

Conclusion

We commend the FHFA for its continued work to ensure that the GSEs increase liquidity in the mortgage market and ensure that borrowers from traditionally underserved and/or excluded communities have access to the mortgage market. Maintaining the two-part test and setting a higher benchmark standard is essential to the effectiveness of the affordable housing goals in meeting this responsibility. We also encourage the FHFA to use its statutory authority under HERA to enforce the goals in order to maintain the GSEs' commitment to actually meet the goals or formulate an action plan when goals are not met. Communities in underserved markets have been deeply harmed by irresponsible lending in the last decade. The GSEs have improved their financial conditions, and now it is time for them to fulfill their other statutory duty, to provide credit to the broad housing market with emphasis on the depressed affordable housing. Meeting a robust benchmark goal must

[23] These percentages were calculated by FHFA for 2006-2013, see Table 6, *available at* https://www.fhfa.gov/SupervisionRegulation/Rules/RuleDocuments/Enterprise_Goals_Proposed_Rule_8-29-2014.pdf. We calculated similar percentages for 2001-2004 based on the data in tables 5a and 5b from http://www.huduser.org/portal/datasets/GSE/profiles01_04.pdf. The highlighting in Figure 1 indicates where performance exceeded the proposed 23% benchmark.

be part of FHFA's oversight of the GSEs. Such an improvement will be good not only for the families who have more access to affordable and responsible credit, but will also further the more general housing recovery.

National Signatories

Americans for Financial Reform
Center for Responsible Lending
NAACP
National Council of La Raza
The Leadership Conference on Civil and Human Rights