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September 5, 2017

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street SW,
Washington, DC 20219

Re: 2018-2020 Enterprise Housing Goals, RIN 2590-AA81

Dear Mr. Pollard,

On behalf of UnidosUS (formerly National Council of La Raza), we appreciate the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Request for Input on the 2018-2020 Enterprise Housing Goals Proposed Rule. UnidosUS is the largest constituency-based Hispanic organization in the U.S., dedicated to improving opportunities for the nation's 57 million Hispanics.[1] This includes improving Hispanics' access to mortgage financing and homeownership.

As the current housing goals are set to expire at the end of 2017, we urge FHFA to set and enforce a strong set of housing goals for 2018-2020. According to the Safety and Soundness Act of 1922, FHFA is required to establish annual housing goals for mortgages purchased by the Enterprises, Freddie Mac and Fannie Mae. UnidosUS agrees that the goals continue to serve as an important measure of the extent to which the Enterprises are meeting their "affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families…while maintaining a strong financial condition and a reasonable economic return.[*] Through this obligation, the Enterprises continue to promote access to affordable mortgage credit for low- and moderate- income households, including Latinos and other historically underserved communities.

UnidosUs Engagement and Expertise

UnidosUS has a long history in the field of housing and community development on which we base these comments. Since the 1980s, UnidosUS has testified on Hispanic housing conditions, advocated for more flexible underwriting guidelines and affordable housing products, and managed several housing and community development programs in the field.

- Written testimony and research

[*] See 12 U.S.C. 4501(7).

- *Making the Mortgage Market Work for America's Families*, published by UnidosUS and the Center for American Progress (June 5, 2013)
- *Puertas Cerradas: Housing Barriers for Hispanics*, published by UnidosUS and the Equal Rights Center (July 19, 2013)
- *Housing Finance Reform and the Consumer Experience*, UnidosUS testimony submitted to the Senate Committee on Banking, Housing, and Urban Affairs, presented at the hearing: "Housing Finance Reform: Essentials of a Functioning Housing Finance System for Consumers" (October 29, 2013)
- *Updating Our Housing Finance System to Reflect a Changing America*, UnidosUS White Paper published in the Urban Institute's Housing Finance Reform Incubator (June 9, 2016)
- *Statement of the National Council of La Raza*, UnidosUS Testimony submitted to the Senate Committee on Banking, Housing and Urban Affairs, presented at the hearing: "Principles of Housing Finance Reform" (July 6, 2017)

- Housing and community development programs
  - **Homeownership Network.** The UnidosUS homeownership network, a network of nearly 50 community-based organizations, is in its 20th year of providing homeownership counseling services to 35,000 very low, low, and moderate-income families annually and averages more than 1,500 closings a year.
  - **The Raza Development Fund.** The Raza Development Fund (RDF),[†] UnidosUS's wholly-owned Community Development Financial Institution, provides capital to UnidosUS Affiliates for community facilities including charter schools, day care, primary health care, and affordable housing development.
  - **Hogar Hispano, Inc.** UnidosUS formed Hogar Hispano, Inc. (HHI),[‡] that is repurposing Real Estate Owned (REO) properties nationally. Since 2013, HHI has acquired and repurposed over 1,300 properties through donation and purchase. It has created a foreclosure prevention program that purchases distressed mortgages and has a higher modification rate than that of private purchasers because of comprehensive programming—all families served by HHI receive housing counseling from the UnidosUS Homeownership Network.

Drawing on our experience, we submit the following comments on the proposed benchmarks for the Single-Family Housing Goals. Specifically, we describe the state of home lending for Latinos, disparities in the Enterprises' loan purchases as they relate to the Latino market and our recommendation to strengthen the goals.

Latinos are Locked Out of the Mortgage Market

[†] Raza Development Fund is a CDFI that invests capital, provides technical assistance and creates financing solutions to increase opportunities for the Latino community and low-income; see more at http://razafund.org/.

[‡] Hogar Hispano is an independent 501(c)(3) economic development corporation. It provides community and economic development resources, technical expertise, and service to local and national organizations conducting programs designed to improve the quality of life for Latino and other underserved communities; see more at http://hogarhispanoinc.org/.

Nearly a decade after the financial crisis, the national homeownership rate has reached a historic low of 63% and the Latino homeownership lingers at 46%.[2] Hispanic families, the neighborhoods in which they live, and other communities of color continue to experience the effects of the foreclosure crisis while also being locked out of new originations in the housing market. Latino homeownership, the single greatest source of wealth in the Latino community, reached a high-water mark of 50% in 2006. Latinos then saw 66% of their housing wealth disappear by 2009 due to the foreclosure crisis.[3]

Latinos and other communities of color are expected to drive household growth and homeownership in the coming decades, suggesting a failure to incorporate the needs of Hispanics in shaping housing finance policy will further hinder growth in the nation's homeownership rate and economy. [4] Latinos and other communities of color receive significantly fewer home mortgages, and are denied credit at a higher rate than White mortgage applicants.[5] The number of originations to applicants of color has declined considerably since 2006.[6] In 2015, of more than 7 million mortgages originated, only 8.3% of home purchase mortgages were made to Latinos, as compared with 5.5% to African-Americans, 5.3% to Asians, and 68.1% to Whites.[7]

While Latinos are underserved by the mortgage market overall, disparities between Latino and White applicants are especially stark in the conventional market. Borrowers with lower levels of wealth are less likely to qualify for conventional products because they require a down payment of 20% or more. In 2015, lenders continued to prioritize the origination of mortgages with a low loan-to-value ratio over low-down payment loans that would broaden access to Latinos and low- and moderate-income borrowers. Conventional loans comprised the bulk (75-95%) of home purchase mortgages originated by the largest lenders with national footprints, and nearly 60% of the mortgage portfolios among more than 6,000 reporting lenders.[8] More than 70% of mortgages made to White borrowers were conventional products, while only 5% of mortgages made to Latinos were conventional. [9] In addition, Hispanics who applied for a conventional product were denied at twice the rate of Whites.

As national lenders appear to move away from serving low-and moderate-income borrowers, Latinos are overrepresented in the nonconventional share of the mortgage market. In 2015, 63% of mortgages made to Latinos were insured by the Federal Housing Administration (FHA) or were otherwise government-insured.[10] While FHA loans have lower down payment requirements, they also require upfront and monthly insurance premiums that add to the price of mortgage credit over time. UnidosUS believes that there should be a balance between multiple mortgage players, which includes roles for the Enterprises and FHA. A secondary market structure that is too narrow raises the risk of perpetuating a two-tiered lending system where White borrowers and communities of color are treated differently and are funneled into separate channels with different fees.

The Enterprises are not Effectively Promoting Lending to Low- and Moderate-Income Borrowers Market

As the housing market continues to recover, lending in the primary market is unnecessarily stringent, and continues to follow the lead of the secondary market's purchasing trends. As a result, many creditworthy low- and moderate-income borrowers have been shut out. The Enterprises' loan purchases in the years following the crisis have defined the quality of loans that lenders should be originating: mortgages to borrowers with near perfect credit and higher incomes. The Enterprises are sending lenders a clear message when they purchase more mortgages with an average credit score above 740 and an average loan to value ratio of 70% (Fannie Mae) or 75% (Freddie Mac), and fewer low-down payment loans with credit enhancements that promote broader access for Latinos and low- and moderate-income borrowers. [11] Studies of the mortgage market suggest that more than 6 million mortgage loans were not originated between 2009-2015 due to credit standards that have been tightening since the crisis.[12] This trend has adversely affected eligible Latino borrowers who appear riskier to lenders because they tend to have lower credit scores and are more likely to have an unscored credit file.[13]

- **Additional evidence**

The following comments discuss further evidence of the Enterprises lack of leadership in promoting lending to low-and moderate-income borrowers:

  - Home Mortgage Disclosure Act (HMDA) shows that lenders are selling fewer loans to the Enterprises. In 2015, the top home lenders sold significantly fewer loans to the secondary market than they had in previous years.[14] For example, in 2015, Wells Fargo and JP Morgan Chase had sold 76% (Wells Fargo) and 37% (JP Morgan Chase) of their money purchase mortgages. This compares with selling more than 80% of their respective mortgages in 2014, and more than 90% of their respective mortgages in 2013.
  - The overall serious delinquency ratios for the Enterprises' portfolios has fallen below pre-crisis levels, to .85% (Freddie Mac) and 1.01% (Fannie Mae).[15] In addition, the default risk ratios of goal-qualifying loans, loans made to low and very low-income borrowers and purchased by the Enterprises, have decreased to below 3% in 2016.[16] Despite the low default rates associated with lending to low-and moderate-income borrowers, the Enterprises continue to underperform on their low- and very low-income home purchase goals.[17] This adversely affects the share of loans made to Latinos and other low-and moderate-income borrowers. In its Annual Housing Activities Report for 2016, Fannie Mae reported that of its total money purchase mortgage acquisitions, less than 8% were loans made to Hispanics.[18] Among the Enterprise's goal-qualifying purchases, only 9.45% of loans to Latinos qualified for the low-income goal and 10% of loans to Latinos qualified for the very low-income goal. This is in comparison to the money purchase share of loans made to Whites, at 72%. Among the goal-qualifying purchases of loans made to Whites, over 42% counted toward low-income goal and more than 71% counted toward the very low-income goal.

FHFA's Proposed Housing Goal Benchmarks Should be Higher

In its rule-making, FHFA has proposed the following benchmarks for the Enterprises to meet or exceed as single-family housing goals in each of the next three years (2018-2020): 24% of the Enterprises' total purchases to be loans made to low-income households, 6% to very low-income households, and 15% to households living in low-income areas. Two of the proposed benchmarks, the low and very low-income housing goals are the same as those set for 2015-2017, and both Enterprises have failed to meet these goals in 2015 and in 2016. Additionally, the Enterprises each exceeded the benchmark of purchases qualifying for the Low-Income Areas Home Purchase Sub goal of 14% in 2015 and 2016, yet the Low-Income Areas Home Purchase Sub goal for 2018-2020 has increased by only one percentage point to 15%.

- **Recommendation:** UnidosUS believes that FHFA should set stronger housing goals for 2018-2020. Instead of setting the same benchmarks as designated in 2015-2017, FHFA should increase the low-income and very low-income home purchase goals to 27% and 8% respectively, the levels set in 2010-2011.[19] By increasing the benchmarks, FHFA would set a clear expectation that the Enterprises outperform and innovate beyond the previously set benchmark and market levels. The Enterprises 2016 Affordable Housing Activities Reports show that the Enterprises are managing portfolios bearing low levels of risk because they are purchasing loans made to low and moderate-income borrowers with a higher credit quality.[20] The default risk ratios of goal-qualifying loans purchased by the Enterprises have decreased to below 3% in 2016.[21] The default risk of loans made low-and moderate-income borrowers that were subsequently purchased by the Enterprises in 2016 is as low as that of loans they purchased in 2010. Therefore, the Enterprises have room to purchase a higher percentage of goal-qualifying loans to help promote broader access to the mortgage market for eligible applicants, without compromising the Enterprises' safety and soundness.

- **Comments on Enterprise Efforts**
    - According to the FHFA Market Estimates Report, there were several variables that validated the accuracy of the forecasting model for the 2018-2020 housing goals. UnidosUS believes that FHFA should consider factors such as the efforts of the Enterprises to innovate their loan products and their partnerships with community-based organizations, to incent the primary market to make loans to low-income and underserved borrowers. Creating products and programs that make credit more accessible and affordable simply cannot occur in the absence of effective outreach to underserved markets that are also hard to serve. As with the Duty to Serve Program, FHFA should encourage the Enterprises to exceed their housing goals through innovations such as low-down payment mortgage programs, testing new credit enhancements, and facilitating creative partnerships between lenders and HUD approved housing counseling agencies to reach underserved markets. The Enterprises have a history of executing "test and learn" efforts, such as the Community Homebuyers Program of the 1990s and the "Home to Own" pilot that significantly increased homeownership for Latinos and families earning below 60% of the area median income.[22]
    - Additional activities that would promote homeownership opportunities for low-and moderate-income borrowers, and complement the Enterprises plans in the Duty to Serve Program, are those that would increase access to capital for

nonprofits that acquire and rehabilitate distressed properties. To this end, we recommend that the Enterprises develop a renovation product geared to community development nonprofits, including Community Development Financial Institutions, and pilot new approaches to encourage lender to make small-balance mortgages.

Conclusion

The Enterprises have an affirmative obligation to ensure broad access to affordable mortgage credit to a range of borrowers and markets across the country. FHFA should consider strengthening the Affordable Housing Goals for the years 2018-2020 by increasing the single-family housing goal benchmarks, and continue to effectively enforce the housing goals to support the Enterprises in fulfilling this obligation. Thank you for this opportunity to present our comments. If you would like to discuss our comments in greater detail, please feel free to contact Eric Rodriguez, Vice President in the Office of Research, Advocacy and Legislation at erodriguez@unidosus.org.

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[3] Rakesh Kochhar, Richard Fry, and Paul Taylor, *Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics* (Washington, DC: Pew Research Center, 2011), http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/ (accessed July 4, 2017).

[4] McCue, Daniel, and Herbert, Christopher. 2016."Updated Household Projections, 2015-2035: Methodology and Results." Working Paper. Harvard University Joint Center for Housing Studies, December 2016.http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/household_growth_projections2016_jchs.pdf;and Spader, Jonathan, and Herbert, Christopher. 2016. "Waiting for Homeownership: Assessing the Future of Homeownership, 2015-2035." Working Paper. Harvard University Joint Center for Housing Studies, December 2016. http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/waiting_for_homeownership-spader_herbert.pdf.

[5] Neil Bhutta and Daniel Ringo, *Residential Mortgage Lending from 2004 to 2015: Evidence from the Home Mortgage Disclosure Act Data*. Board of Governors of the Federal Reserve Bulletin. Washington, DC, 2016, https://www.federalreserve.gov/pubs/bulletin/2016/articles/hmda/2015-hmda-data.htm (accessed August 30, 2017).

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[8] Ibid., Table 11

[9] Center for Responsible Lending, *The Nation's Housing Finance System Remains Closed to African American and Latino Consumers Despite Strong Economic Recovery in 2015* (Durham, NC: Center for Responsible Lending, 2016), http://www.responsiblelending.org/research-publication/nations-housing-finance-system-remains-closed-africanamerican-latino-and-lowhttp://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/2015_hmda_policy_brief_2.pdf (accessed September 5, 2017).

[10] Neil Bhutta and Daniel Ringo, *Residential Mortgage Lending from 2004 to 2015: Evidence from the Home Mortgage Disclosure Act Data*. Board of Governors of the Federal Reserve Bulletin. Washington, DC, 2016, https://www.federalreserve.gov/pubs/bulletin/2016/articles/hmda/2015-hmda-data.htm (accessed August 30, 2017), Table 4

[11] Freddie Mac. *Form 10-K 2016 Annual Report.* McLean, VA, 2016 http://www.freddiemac.com/investors/financials/pdf/10k_021617.pdf (accessed August 30, 2017); and Fannie Mae. *Fourth Quarter and Full Year 2016 Credit Supplement*. Washington, DC, 2017, http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2016/q42016_credit_summary.pdf (accessed August 30, 2017).

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[15] Fannie Mae. *Monthly Summary Highlights, June 2017*. Washington, DC, 2017, http://www.fanniemae.com/resources/file/ir/pdf/monthly-summary/063017.pdf (accessed August 30, 2017); and Freddie Mac. *Monthly Volume Summary: July 2017*. McLean, VA, 2017 http://www.freddiemac.com/investors/financials/pdf/0717mvs.pdf (accessed August 30, 2017).

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