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National Association of Federally-Insured Credit Unions

September 5, 2017

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
400 7th St., SW, 8th Floor
Washington, D.C. 20219

RE: 2018-2020 Enterprise Housing Goals (RIN 2590-AA81)

Dear Mr. Pollard:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation’s federally-insured credit unions, I am writing to you in regard to the Federal Housing Finance Agency's (FHFA) proposed rule on the housing goals for Fannie Mae and Freddie Mac (the GSEs) for 2018 through 2020. NAFCU supports the GSEs' efforts to purchase loans on housing that is affordable to very low and low-income families. NAFCU is, however, concerned that the GSEs' focus in the single-family market on purchasing 30-year, fixed-rate mortgages that meet their current maximum loan-to-value (LTV) ratio requirements is too narrow because it excludes alternatives that would better serve the GSEs' purpose of assisting very low- and low-income families.

Accordingly, although NAFCU generally supports the FHFA's proposed rule on the GSEs' housing goals for 2018-2020, it also requests that the FHFA consider encouraging the GSEs to establish a pilot program to begin purchasing alternative mortgage loans, including the Wealth Building Home Loan (WBHL). NAFCU also requests the opportunity to meet with the FHFA and the GSEs to further discuss the potential of such a pilot program.

General Comments

The *Federal Housing Enterprises Financial Safety and Soundness Act of 1992* (Safety and Soundness Act), as revised by the 2008 *Housing and Economic Recovery Act* (HERA), requires the FHFA to establish annual housing goals for the GSEs. These housing goals include the purchase of single-family and multifamily mortgages on housing that is affordable to very low-and low-income families. Since the revisions required by HERA, the FHFA has established housing goals for the GSEs for 2010 and 2011, 2012 through 2014, and 2015 through 2017.

The GSEs performance on the single-family housing goals is measured as the percentage of the total home purchase mortgages purchased by a GSE each year that qualify for each goal or subgoal as compared to two separate measures: the benchmark level and a market level. Performance on the multifamily goals, however, is measured against the benchmark levels only, due to a lack of comprehensive data about the multifamily market. There is also a separate goal for refinancing mortgages for low-income families, which is determined through a similar calculus. The proposed rule would establish benchmark levels for the single-family and multifamily housing goals and subgoals for 2018-2020 that are largely unchanged from the benchmark levels for 2015-2017.

NAFCU supports the FHFA's proposed rule which would maintain the benchmark levels for the single-family and multifamily housing goals and subgoals, with a couple minor exceptions. To better achieve these housing goals, NAFCU requests that the FHFA consider encouraging the GSEs to establish a pilot program for the purchase of single-family high LTV, shorter term amortization mortgage loans. Such a pilot program would have a ripple effect that addresses the true challenges faced by low-income borrowers and would put the GSEs in a much better position to achieve their statutory mandated requirement to serve low-income families.

High LTV Purchase Loans Pilot Program

NAFCU's member credit unions have always been acutely focused on finding ways to help their members achieve their dreams of homeownership, especially those very low- and low-income members who may have difficulty obtaining a mortgage from other lenders. As not-for-profit, member-owned, cooperative financial institutions dedicated to serving the needs of their communities, credit unions offer a variety of alternatives to the standard 30-year, fixed-rate mortgage. Unfortunately, without the existence of a secondary market for such loans, many credit unions are limited in their ability to make more of these loans. It is now time for the GSEs to fill the void and provide the liquidity credit unions need to continue to make such mortgage loans that truly help low-income families achieve their dreams of homeownership.

Many credit unions in the greater Washington D.C. area and across the country offer mortgage loans with a zero or low down payment and shorter amortization terms that help first-time homebuyers purchase a home and actually build equity in that home. These types of loans are especially helpful to the population of very low- and low-income borrowers and should be supported by the GSEs as part of their housing goals, which would, in turn, help credit unions make more of these loans. One such loan is the Wealth Building Home Loan (WBHL), developed by Edward Pinto and Stephen Oliner at the American Enterprise Institute. Currently, over twenty lenders, including three credit unions are offering WBHLs, totaling over $100 million in originations. The key features of a WBHL include a 15- or 20-year fully amortizing loan with either a fixed interest rate or a two-step rate structure (an initial fixed-rate for about 7 years and then an adjustable rate), strong underwriting, and zero or low down payment.

When properly structured, such loans for single-family homes are less risky than a 30-year, fixed-rate loan. In fact, during the financial crisis, 15-year loans defaulted only a third as often as otherwise identical 30-year loans and 20-year loans defaulted only half as often as identical 30-year loans. Additionally, according to data from Freddie Mac's single-family, loan-level dataset for loans originated during 2007 and then tracked through 2012, purchase loans with a combined loan-to-value (CLTV) ratio above 90 percent demonstrated about the same default rate as no-cash-out refinances with CLTVs of 71-80 percent and cash-out refinances with CLTVs a little under 70 percent. It follows that if WBHLs are less risky than a 30-year, fixed-rate loan, despite their high LTVs, and all risk characteristics being the same, WBHLs are also less risky than refinance loans.

The GSEs' absence in this space is, therefore, particularly perplexing given that the FHFA recently announced a new high-LTV refinance program for the GSEs. The new High LTV Streamlined Refinance program makes refinancing available to borrowers who are current on their mortgage but unable to refinance because of LTV ratios that exceed the GSEs' maximum limits for loans that are originated on or after October 1, 2017. The FHFA also indicated that it will modify the structure of future credit risk transfer transactions to accommodate this new program.

When reviewing default risk, it is inconsistent for the FHFA to engage in this High LTV program without also considering the benefits of a WBHL or similar high LTV purchase loan pilot program. WBHLs have lower default risk than 30-year, fixed-rate loans and would, therefore, have a lower default risk than no-cash-out refinances; so WBHLs would also certainly have a lower default rate than the high LTV loans that will be part of this new program. The lower default risk, the more appealing the loan is to private investors looking to purchase mortgage-backed securities or engage in a credit risk transfer transaction.

Perhaps most importantly, these loans also offer several benefits for very low- and low-income consumers, including zero or no down payment, low interest rates, monthly payments nearly as low as that of a 30-year, fixed-rate loan, and the potential to build substantially more equity than is possible with a 30-year, fixed-rate loan. These characteristics of WBHLs are exactly what would help very low- and low-income families accumulate wealth and achieve debt-free homeownership.

Instead of simply focusing on the volume of loans purchased, the FHFA should focus on expanding the types of loans it purchases. The purchase of WBHLs or similar mortgage loans aligns with the public purpose of the GSEs, as outlined in the Safety and Soundness Act, to "facilitate the financing of affordable housing for low- and moderate-income families" while "maintaining a strong financial condition and a reasonable economic return." In addition, investors would likely be more attracted to a stable loan product that carries a shorter amortization term, which means the GSEs could offload more of their credit risk through various credit risk transfer transactions.

In conclusion, NAFCU asks the FHFA to recalibrate its focus when finalizing the 2018-2020 housing goals rule to include a pilot program for WBHLs or similar mortgage loans. NAFCU is confident that the purchase of such loans can help the GSEs break the cycle of falling short in their low-income purchase goals while maintaining the sound financial condition of the GSEs. The GSEs will be better equipped to lead the market in making credit available if they expand their purchases to include WBHLs or similar mortgage loans.

Conclusion

NAFCU appreciates the opportunity to provide our comments regarding the FHFA's proposed rule for the GSEs' 2018-2020 housing goals. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2212 or akossachev@nafcu.org.

Sincerely,

Ann C. Kossachev

Ann Kossachev
Regulatory Affairs Counsel