NAHB
National Association of Home Builders

HOUSING FINANCE AND REGULATORY AFFAIRS
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September 5, 2017

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

RE: Comments/RIN 2590-AA81
2018-2020 Enterprise Housing Goals

Submitted via Electronic Delivery to: RegComments@fhfa.gov

Dear Mr. Pollard:

On behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), I would like to submit comments on the above-referenced proposed rule, which establishes affordable housing goals for Fannie Mae and Freddie Mac (the Enterprises) for 2018, 2019 and 2020.

NAHB is a Washington DC-based trade association representing more than 140,000 members involved in the development and construction of for-sale single family homes, including homes for first-time and low- and moderate-income homebuyers, as well as the construction, ownership and management of multifamily rental housing, including affordable rental housing. The ability of the home building industry to meet the demand for housing, including addressing affordable housing needs, and contribute significantly to the nation’s economic growth is dependent on an efficiently operating housing finance system, including a robust and liquid secondary market for originated mortgage products.

Background

The Housing and Economic Recovery Act of 2008 (HERA) amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act) to require the Federal Housing Finance Agency (FHFA) to establish, monitor and enforce annual housing goals for the Enterprises effective for 2010 and each year thereafter. Since 2010, the housing goals have included four goals and one subgoal for single family owner-occupied housing. In 2010, the housing goals for multifamily housing included one goal and one subgoal. Effective with the 2015 goals, an additional subgoal was added for multifamily housing to measure units affordable to families with incomes no greater than 80 percent of area medium income (AMI) in small multifamily rental properties (5 to 50 units).

Although the Enterprises were placed into conservatorship in 2008, they continue to have the mission of supporting a stable and liquid national market for residential mortgage financing. FHFA states that while the Enterprises are in conservatorship, all activities, including those in support of affordable housing, must be conducted in a safe and sound manner, per the requirements of HERA. Thus, FHFA has continued to establish and monitor annual housing goals for the Enterprises. If FHFA determines that the housing goals cannot be met consistent with HERA's requirements, it may suspend the goals until they can be achieved.

This proposed rule proposes the benchmark levels for each of the single family and multifamily goals and subgoals for 2018 through 2020 and also proposes a revision to the requirements applicable to the housing plan an Enterprise may be required to submit in the event it fails to achieve one or more of the housing goals.

NAHB agrees that Fannie Mae and Freddie Mac must continue to meet their affordable housing mission during conservatorship. The Enterprises' support to these market segments is critical, perhaps even more so as access to mortgage credit continues to be tight. NAHB's economic forecasts, like FHFA's, predict mortgage interest rates will rise through 2019 which will have a negative impact on affordable housing opportunities for low-income and very low-income households. However, NAHB concurs with FHFA's plan to keep single family goal levels the same, with the exception of a small increase in the low-income areas home purchase subgoal, to encourage the Enterprises to stretch to meet the goals and, thereby, the spirit of their affordable housing mission.

FHFA proposes a minor increase in the benchmark level of the multifamily low-income goal reflecting FHFA's effort to balance the seeming ease with which the Enterprises have exceeded this goal in recent years with the relatively flat forecast for multifamily originations and the possibility that obtaining housing subsidies may be challenging for low-income families. NAHB's specific comments and recommendations follow.

Proposed Single Family Housing Goals for 2018-2020

The Safety and Soundness Act requires FHFA to consider seven factors in setting the single family housing goals: (1) national housing needs; (2) economic, housing, and demographic conditions; (3) performance and effort of the Enterprises towards achieving previous years' housing goals; (4) ability of the Enterprises to lead the industry in making mortgage credit available; (5) other reliable mortgage data as may be available; (6) size of the conventional mortgage market; and, (7) maintaining the sound financial condition of the Enterprises.

In setting the proposed benchmark levels for the single family housing goals, FHFA uses market forecast models to forecast the share of goal-qualifying mortgage originations in the market. The forecast models incorporate four of the seven factors above: national housing needs; economic, housing, and demographic conditions; other reliable mortgage data; and the size of the conventional purchase mortgage market or refinance mortgage market. Using these four factors, an estimate of the market and a confidence level range of the estimate is generated. The last three factors: performance and effort of the Enterprises towards achieving previous years' housing goals; ability of the Enterprises to lead the industry in making mortgage credit available; and maintaining the sound financial condition of the Enterprises then are considered to select the specific point forecast within the "confidence level range" to use as the proposed benchmark level for the goal. Economic and housing industry variables, such as the unemployment rate, inflation, income growth, housing starts, home sales, home prices and interest rates also are taken into account.

To set the benchmark levels for this year's goals, FHFA revised its market forecast models based on input from industry modeling experts in listening sessions throughout 2016. The new forecast models incorporate additional variables that were determined to help predict the impact on the market share of affordable housing. The new variables include household debt-to-income ratio, labor force participation rate, and underwriting standards. Certain variables are not included in FHFA's models, but the agency considers their impact on the Enterprises' ability to meet the goals. These variables include an uneven economic recovery, stagnant wages, demographic trends, and the Enterprises' share of the mortgage market.

<u>Single Family Housing Goals Benchmark Levels</u>

As shown in the table below, for years 2018-2020, FHFA proposes to maintain the 2015-17 benchmark goals for low-income home purchase, very-low-income home purchase and low-income refinancing mortgages. The low-income areas home purchase subgoal will increase by one percentage point.

Single Family Housing Goal Benchmark Levels: Past and Proposed

Goal	Criteria	Benchmark Goals for 2015-2017	Proposed Benchmark Goals for 2018-2020
Low-Income Home Purchase	Home purchase mortgage loans on owner-occupied single family homes with borrowers with income no greater than 80% of AMI	24 percent	24 percent
Very-Low-Income Home Purchase	Home purchase mortgage loans on owner-occupied single family homes with borrowers with incomes no greater than 50% of AMI	6 percent	6 percent
Low-Income Areas Home Purchase Subgoal	Home purchase mortgage loans on owner-occupied single family homes with: • Borrowers in census tracts with tract median income of no greater than 80% of AMI; • Borrowers with incomes up to 100% of AMI in census tracts where tract median is less than 100% of AMI and minorities are at least 30% of census tract population	14 percent	15 percent
Disaster Areas Increment to the Low-Income Areas Home Purchase Subgoal	Moderate income families (100% of AMI) in designated disaster areas	Disaster increment: 5% in 2015 3% in 2016 Not set yet for 2017	Disaster increment to be set at a later date by FHFA
Low-Income Refinancing Goal	Refinancing mortgage loans on single family owner-occupied properties with borrowers with incomes no greater than 80% of AMI	21 percent	21 percent

Low-Income Home Purchase Goal

FHFA's market model forecasts a declining percentage of home purchase mortgage loans made to low-income families in 2019 and 2020 after reaching a peak in 2018. However, the average of the market forecasts for 2018-2020 is 24.1 percent so the agency has left the benchmark goal at 24 percent. This may be a bit of a stretch goal for the Enterprises. They did not achieve the 24 percent benchmark level in 2015 or 2016 and numerous challenges to affordability were identified by FHFA that may impede the Enterprises efforts to reach the benchmark going forward. However, FHFA proposes to leave the benchmark goal level unchanged at 24 percent to incent the Enterprises to look for additional methods to encourage lenders to reach out to low-income borrowers.

Very Low-Income Home Purchase Goal

As with the low-income home purchase goal, FHFA's market model forecasts a declining proportion of home purchase mortgage loans for very low-income families for 2019 and 2020 after projected increases in 2017 and 2018. Neither Enterprise has reached the actual market share in this goal category since 2007. Both exceeded the benchmark level in 2012, but that is the only year since the benchmark level was established for this category in 2010 that the Enterprises met or exceeded it. FHFA proposes to leave the goal at six percent where it has been since 2015 as a means to incent the Enterprises to design a strategy to reach additional very-low income borrowers.

Low-Income Areas Home Purchase Subgoal

FHFA proposes to raise the benchmark for this subgoal from 14 percent to 15 percent for 2018-2020 in acknowledgement that both Enterprises have exceeded the benchmark level for this subgoal regularly since 2013. FHFA forecasts an increase in the market share for this subgoal in 2017, 2018, and 2019 before a dip in the forecasted market share in 2020.

In setting this subgoal, the agency's research led to the discovery that the market share of mortgage loans in the category that is inclusive of low-income areas and high-minority census tracks has been increasing to borrowers with incomes at or above 100 percent of AMI. Though loans to borrowers with incomes at or above 100 percent of AMI do not qualify for goals credit, the Enterprises' purchase of these loans supports that market and may be leading to higher house prices and the gradual displacement of low-income borrowers in these areas. In light of this concern, FHFA states that limiting the increase in the benchmark level to 1.00 percent simply reflects the current market expectations and the Enterprises' past strong performance in meeting this subgoal.

Low-Income Areas Home Purchase Goal

This goal adds a "disaster areas" increment to the low-income areas home purchase subgoal to ensure the Enterprises reach out to families with incomes less than or equal to 100 percent of AMI who reside in designated disaster areas. The disaster areas increment is set annually by FHFA separately from this rulemaking. The disaster increment still has not been determined for 2017. The disaster areas increment may vary from year to year.

Low-Income Refinancing Goal

FHFA proposes to leave this goal at 21 percent even though it forecasts the low-income share of the refinance market will rise to 24.3 percent in 2018, to 25.5 percent in 2019, and fall back to 24.8 percent in 2020. Though the average of the forecasts for 2018-2020 is 24.9 percent, the confidence levels of these forecasts reflects the uncertainty about what interest rates might do and how the market share is a reflection of interest rates. NAHB economists forecast the 30-year interest rate rising from July 2017 through the end of 2019. By the end of 2019, interest rates are predicted to be more than 1.00 percentage point higher than today's rates. Increasing interest rates have a chilling impact on the volume of refinance mortgage originations generally, but as FHFA wrote in its proposed rule for 2015-2017 Enterprise Housing Goals, the low-income goal-qualifying share of refinancing mortgage loans often will increase when interest rates increase because home owners that do refinance tend to be lower income homeowners who refinance for reasons other than taking advantage of lower interest rates.

<u>NAHB's Comments on Proposed Single Family Housing Goals for 2018-2020</u>

Home builders and developers rely on the availability of housing credit for their livelihoods. They are equally concerned about access to affordable acquisition, development and construction financing to build homes and that home buyers have access to affordable mortgage loans to buy the homes they build. Consequently, NAHB is a staunch advocate for a viable, efficient home mortgage market that meets the housing finance needs of as many creditworthy home buyers as possible.

Like FHFA, NAHB believes, even in conservatorship, the Enterprises should continue to meet the component of their public mission that requires them to provide access to mortgage credit for traditionally underserved home buyers and home buyers in underserved areas. As stated in the 2010 final rule, "FHFA does not intend for the Enterprises to undertake uneconomic or high-risk activities in support of the goals. However, the fact that the Enterprises are in conservatorship should not be a justification for withdrawing support from these market segments."

The proposed rule makes clear that FHFA considered numerous industry and economic indicators in order to establish the benchmark goal levels – reviewing historic and forecast values for each indicator. FHFA also evaluated the actual performance of each Enterprise in meeting the established goals in previous years to help ensure it is setting the goals at levels which are feasible for the Enterprises to achieve.

After reviewing FHFA's detailed explanation of the basis for establishing the proposed benchmark levels for each single family goal category for 2018-2020, NAHB believes FHFA has set the goals at levels that are based appropriately on the agency's market forecasts for mortgage originations in each goal category. NAHB believes the benchmark levels for the low-income and very low-income home purchase goals may require the Enterprises to "stretch" to achieve them and we support this approach.

<u>Proposed Multifamily Goals for 2018-2020</u>

The multifamily goals defined under the Safety and Soundness Act include separate categories for:

- Mortgages on multifamily properties (properties with five or more units) with rental units affordable to low-income families;
- Multifamily properties with rental units affordable to very low-income families; and
- A small multifamily low-income subgoal for properties with 5–50 units.

The multifamily goals established by FHFA in 2010, 2012, and 2015 evaluated the performance of the Enterprises based on numeric targets, not percentages, for the number of affordable units in properties backed by mortgages purchased by an Enterprise. FHFA has not established a retrospective market level measure for the multifamily goals and subgoals, due in part to a lack of comprehensive data about the multifamily market such as that provided by HMDA for single family mortgages. As a result, FHFA currently measures Enterprise multifamily goals performance only against the benchmark levels. The expanded HMDA fields that will be available for the 2018 performance year are expected to include information on the number of units for each multifamily loan and should be helpful in evaluating performance for this market segment.

Multifamily Housing Goal Levels

The proposed rule would establish levels for the multifamily goal and subgoals for 2018–2020 as follows:

Goal	Criteria	Current Goal Level for 2017	Proposed Goal Level for 2018–2020
Low-Income Goal	Units affordable to families with incomes no greater than 80 percent of area median income in multifamily rental properties with mortgages purchased by an Enterprise.	300,000 units	315,000 units
Very Low-Income Subgoal	Units affordable to families with incomes no greater than 50 percent of area median income in multifamily rental properties with mortgages purchased by an Enterprise.	60,000 units	60,000 units
Low-Income Small Multifamily Subgoal	Units affordable to families with incomes no greater than 80 percent of area median income in small multifamily rental properties (5 to 50 units) with mortgages purchased by an Enterprise.	10,000 units	10,000 units

As required by the Safety and Soundness Act, FHFA determines affordability of multifamily units based on a unit's rent and utility expenses not exceeding 30 percent of the area median income standard for low- and very low-income families.

In setting the proposed benchmark levels for the multifamily housing goals, FHFA has considered the statutory factors outlined in Section 1333(a)(4) of the Safety and Soundness Act. These factors include:

1. National multifamily mortgage credit needs and the ability of the Enterprises to provide additional liquidity and stability for the multifamily mortgage market;
2. The performance and effort of the Enterprises in making mortgage credit available for multifamily housing in previous years;
3. The size of the multifamily mortgage market for housing affordable to low-income and very low-income families, including the size of the multifamily markets for housing of a smaller or limited size;
4. The ability of the Enterprises to lead the market in making multifamily mortgage credit available, especially for multifamily housing affordable to low-income and very low-income families;
5. The availability of public subsidies; and
6. The need to maintain the sound financial condition of the Enterprises.

Multifamily Low-Income Housing Goal and Historical GSE Performance

The multifamily low-income housing goal is based on the total number of rental units in multifamily properties financed by mortgages purchased by the Enterprises that are affordable to low-income families, defined as families with incomes less than or equal to 80 percent of AMI.

From 2012 through 2016, both Enterprises exceeded their low-income multifamily goals. In 2016, the goal for each Enterprise was 300,000 units. Fannie Mae purchased mortgages financing 351,235 low-income units, and Freddie Mac purchased mortgages financing 407,340 low-income units. While total volumes have increased, the share of low-income units financed at each Enterprise has been declining from peak levels in 2012.

Multifamily Low-Income Housing Goal: Historical Performance

Year	2012	2013	2014	2015	2016
Fannie Mae Goal	285,000	265,000	250,000	300,000	300,000
Freddie Mac Goal	225,000	215,000	200,000	300,000	300,000
Fannie Mae Performance:					
Low-Income Multifamily Units	375,924	326,597	260,124	307,510	351,235
Total Multifamily Units	501,256	430,751	372,089	468,798	551,666
Low-Income % Total	75.0%	75.8%	69.9%	65.6%	63.7%
Freddie Mac Performance:					
Low-Income Multifamily Units.	298,529	254,628	273,807	379,043	407,340
Total Multifamily Units	377,522	341,921	366,377	514,275	597,033
Low-Income % of Total Units	79.1%	74.5%	74.7%	73.7%	68.2%

The forecast for the multifamily originations market increases slightly and then levels off after 2017. However, as described in the proposed rule, FHFA expects the gap between the supply of low-income and very low-income units and the needs of low-income households to continue in the next goal period. Moreover, the forecast for the multifamily originations market for 2017 and 2018 is relatively flat, and securing housing subsidies will likely continue to be challenging. These trends suggest moderation in any increase in the proposed goal levels. Therefore, balancing these considerations, the proposed rule sets the annual low-income multifamily housing goal for each Enterprise at 315,000 units in each year from 2018 through 2020, a modest increase from the 300,000 unit goal for each Enterprise in 2015–2017.

Multifamily Very Low-Income Housing Subgoal and Historical GSE Performance

The multifamily very low-income housing subgoal includes units affordable to very low-income families, defined as families with incomes no greater than 50 percent of AMI. From 2012 through 2016, both Enterprises met and exceeded their very low-income multifamily subgoal.

According to FHFA, this market faces even larger challenges than the low-income multifamily housing market because it sets lower rents, and often needs deeper subsidies to make units affordable. Concluding that moderation is needed in the setting of the very low-income multifamily subgoal, FHFA proposed to maintain the annual very low-income multifamily subgoal for each Enterprise at 60,000 units each year from 2018 through 2020.

Multifamily Very Low-Income Subgoal: Historical Performance

Year	2012	2013	2014	2015	2016
Fannie Mae Goal	80,000	70,000	60,000	60,000	60,000
Freddie Mac Goal	59,000	50,000	40,000	60,000	60,000
Fannie Mae Performance					
Very Low-Income Multifamily Units	108,878	78,071	60,542	69,078	65,445
Very Low-Income % of Total Units	21.7%	18.1%	16.3%	14.7%	11.9%
Freddie Mac Performance					
Very Low-Income Multifamily Units	60,084	56,752	48,689	76,935	73,032
Very Low Income % of Total Units	15.9%	16.6%	13.3%	15.0%	12.2%

Small Multifamily Low-Income Housing Subgoal and Historical GSE Performance

A small multifamily property is defined as a property with 5 to 50 units. The small multifamily low-income housing subgoal is based on the total number of units in small multifamily properties financed by mortgages purchased by the Enterprises that are affordable to low-income families, defined as families with incomes less than or equal to 80 percent of AMI.

This was a new subgoal created in the 2015–2017 goal period. The subgoal was set at 6,000 units in 2015, 8,000 units in 2016, and 10,000 units in 2017. In 2016, both Enterprises exceeded the goal of 8,000 units.
The proposed rule would set the annual small multifamily subgoal for each Enterprise at 10,000 units for each year from 2018 through 2020, the same as the 2017 goal. FHFA states maintaining the current subgoal should continue to encourage the Enterprises’ participation in this market and ensure the Enterprises have the expertise necessary to serve this market should private sources of financing become unable or unwilling to lend on small multifamily properties.

Small Multifamily Low-Income Subgoal: Historical Performance

Year	2012	2013	2014	2015	2016
Small Low-Income Multifamily Goal	N/A	N/A	N/A	6,000	8,000
Fannie Mae Performance:					
Small Low-Income Multifamily Units	16,801	13,827	6,732	6,731	9,310
Total Small Multifamily Units	26,479	21,764	11,880	11,198	15,230
Low-Income % of Total Small Multifamily Units	63.5%	63.5%	56.7%	60.1%	61.1%
Freddie Mac Performance:					
Small Low-Income Multifamily Units	829	1,128	2,076	12,802	22,101
Total Small Multifamily Units	2,194	2,375	4,659	21,246	33,984
Low-Income % of Total Small Multifamily Units	37.8%	47.5%	44.6%	60.3%	65.0%

NAHB Comments on the Proposed Multifamily Goals for 2018 – 2020

FHFA proposes to increase the low-income multifamily goal from 300,000 to 315,000 units for each GSE, while holding constant the very-low income and small multifamily low-income subgoals at the current levels of 60,000 and 10,000 respectively through 2020. NAHB generally agrees with many of the economic and policy assumptions FHFA used to set these goals. NAHB's forecasts for new multifamily construction starts suggests that the multifamily mortgage market is slowing down. Similarly, our members often describe the unique challenges associated with financing affordable and small apartment properties. Nevertheless, NAHB is concerned that FHFA's proposed multifamily housing goals may be too low at a time when the need for affordable housing is rising.

In setting the multifamily housing goals, FHFA seeks to balance the statutory factors outlined in the Safety and Soundness Act with other important considerations. Among the most important considerations are the size of the multifamily market, market share of the GSEs, and availability of apartments that are affordable to low-income and very-low income families. Although FHFA does not discuss in detail its multifamily Duty to Serve and Conservatorship Scorecard requirements, it does acknowledge some overlap among the multifamily properties covered under all of these regulatory initiatives.

Multifamily Low-Income Housing Goal

NAHB is pleased that FHFA proposed an increase in the multifamily low-income housing goal for each Enterprise, but we urge the Agency to consider more aggressive targets for this goal and the subgoals. FHFA has historically taken a conservative approach to setting the multifamily goals. It is important that the Enterprises' goals are challenging, but reasonably so. Both Enterprises' multifamily businesses have done very well financially, and meeting these goals has not negatively affected safety and soundness. Likewise, the Enterprises have generally met or far exceeded their goals. Based on our own forecasts for new multifamily construction starts, NAHB agrees that the multifamily mortgage market activity over the period of 2018-2020 will be slower than the current 2015-2017 housing goals period. Nevertheless, we believe our request is reasonable when weighed against the strong need for affordable housing, the Enterprises' performance over the last five years and the incentives Fannie Mae and Freddie Mac receive to support affordable housing.

FHFA proposed a modest 15,000 unit increase for each GSE under the Multifamily Low-Income Housing Goal. The current 300,000 goal would rise to 315,000 units. NAHB welcomes this increase, but FHFA's data suggest the goal should be set even higher. The table shows that both Enterprises easily surpassed their 300,000 unit goals in both 2015 and 2016. In 2016, Fannie Mae exceeded the goal by 51,235 units and Freddie Mac exceeded it by 107,340 units.

Multifamily Very Low-Income Subgoal

Of particular concern is FHFA's proposal to maintain the current very-low-income multifamily subgoal of 60,000 units for each Enterprise through 2020. Fannie Mae's subgoal was first set at 60,000 in 2014, and it has been in place for both Enterprises since 2015.

Data suggest the Enterprises can achieve a higher target for the multifamily very low-income subgoal. In both 2015 and 2016, Fannie Mae and Freddie Mac significantly exceeded their 60,000 unit subgoals. Fannie Mae purchased mortgages that financed 69,078 qualified units in 2015, and 65,445 in 2016. Freddie Mac purchased mortgages that financed 76,935 qualified units in 2015 and 73,032 in 2016.

Further, the Enterprises are incentivized to purchase units that would qualify under the multifamily very-low-income subgoal since these purchases are exempted from the multifamily volume cap under the Conservatorship Scorecard. Many of the units that would count toward this subgoal are also likely to be counted toward Duty to Serve Credit under Affordable Housing Preservation.

Small Multifamily Low-Income Housing Subgoal

Small multifamily properties with 5 to 50 units are an important source of affordable rental housing and represent approximately one-third of the affordable rental market. Small multifamily properties are exempt from the Conservatorship Scorecard Multifamily Volume Caps. Likewise, small multifamily properties that are affordable to low-income households are eligible for credit under the Duty to Serve Rule.

Given the Enterprises' past performance, NAHB believes this subgoal should be set at a higher level. Since the goal was established in 2015, Fannie Mae and Freddie Mac have each exceeded their goals. In 2016, each GSE achieved well above the 8,000 unit subgoal for small multifamily low-income units as Fannie Mae purchased mortgages that financed 9,310 units, while Freddie Mac purchased mortgages that financed 22,101 units.

Conclusion

NAHB appreciates that FHFA is moving forward with updated goals for the 2018-2020 period for the Enterprises. With their charters still in effect, the Enterprises' affordable goals should remain in effect until such time as FHFA determines they are having a negative impact on the safety and soundness of the Enterprises.

NAHB supports FHFA's proposed single family goals. In the multifamily area, NAHB believes the Enterprises should continue to demonstrate leadership in affordable housing by providing liquidity and supporting housing for tenants at different income levels in various geographic markets and in various market segments. Thus, NAHB is pleased that FHFA proposed a higher goal for multifamily low-income units, but we encourage FHFA to consider increasing the goal for multifamily very-low-income units and small multifamily properties.

Thank you again for the opportunity to comment on the proposed Enterprise housing goals for 2018-2020. If you have any questions regarding these comments, please feel free to contact Rebecca Froass, Director, Financial Institutions and Capital Markets, at 202-266-8529 or rfroass@nahb.org or Michelle Kitchen, Director, Multifamily Finance, at 202-266-8352 or mkitchen@nahb.org.

Sincerely,

Michelle C. Hamecs

Michelle (Chellie) Hamecs
Vice President, Housing Finance