National Association of Home Builders

Housing Finance & Regulatory Affairs
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Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Eighth Floor
400 7th Street SW
Washington, DC 20219

Attention: Comments/RIN2590-AB04
2021 Enterprise Housing Goals

Submitted via Electronic Delivery to: RegComments@fhfa.gov

Dear Mr. Pollard:

On behalf of the National Association of Home Builders (NAHB), I welcome the opportunity to submit comments to the Federal Housing Finance Agency (FHFA) on the above-referenced proposed rule, which establishes benchmark levels for the 2021 housing goals for Fannie Mae and Freddie Mac (the Enterprises).

NAHB is a Washington-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 significantly contribute to the nation's economic growth is dependent on an efficiently operating housing finance system. The nation's housing finance system must offer home buyers in all geographic areas access to affordable mortgage financing at reasonable interest rates through all economic conditions and provide financing for multifamily housing development to support affordable rental opportunities. The Enterprises' housing goals requirements support the essential American principle of a "decent home and a suitable living environment for every American family"[1] by providing a robust secondary market for mortgage loans that support homeownership and rental housing for very low-, low- and moderate-income families.

Background

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act) requires FHFA to establish several annual housing goals for both single-family and multifamily mortgages purchased by Fannie Mae and Freddie Mac. Although the Enterprises were placed into conservatorship in 2008, they continue to be required to comply with the annual housing goals as determined by FHFA. The housing goals help FHFA measure how well the Enterprises are meeting their mission to support a stable and liquid national market for residential mortgage financing and "an affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families in a manner consistent with their overall public purposes, while maintaining a strong financial condition and a reasonable economic return." [2]

[1] Housing Act of 1949
[2] 12 U.S.C. 4501 (7)

The FHFA prospectively sets benchmark goals for single-family and multifamily mortgage purchases based on forecast models that estimate the share of goals-qualifying mortgage originations in the market. For single-family housing goals, a retrospective market level also is determined based on the actual goals-qualifying share of the overall single-family market as measured by the Home Mortgage Disclosure Act (HMDA) data. In order to meet a single-family housing goal, the percentage of mortgage purchases by an Enterprise that meet each goal must equal or exceed either the benchmark or the market level that year. FHFA currently measures the multifamily goals performance against the prospective benchmark levels only, due in part to a lack of comprehensive data about the multifamily market.

Market Conditions

As FHFA notes in the proposal, the upheaval in the nation's economy due to the COVID-19 pandemic has caused significant uncertainty in both the single-family and multifamily housing markets. Temporary underwriting flexibilities, mortgage forbearance options, foreclosure and eviction moratoriums, and a proposed future adverse market fee on single-family refinance loans all are having or will have an impact on the Enterprises that is impossible to know and to predict for the long term.

The interest rate on a 30-year fixed rate mortgage loan reached an all-time low of 2.86 percent the week of September 6, 2020 and currently remains at a historically low level. NAHB's economic forecast for 2021 estimates the 30-year fixed rate mortgage interest rate at 2.98 percent in the first quarter; 3.02 percent in the second quarter; 2.99 percent in the third quarter and 3.02 percent in the fourth quarter. These rates are significantly lower than the rate throughout 2019, which was 4.51 percent the first week of January 2019 and reached a low of 3.49 percent in September 2019 according the Freddie Mac's Primary Mortgage Market (PMM) Survey.

NAHB's economic forecast, as of September 9, 2020, indicates single-family new home sales and existing home sales increasing in 2021 from 2020 levels and single-family housing starts also increasing in 2021 from 2020 levels. NAHB forecasts multifamily housing starts will fall slightly in 2021 from 2020. The civilian unemployment rate, which peaked in the second quarter of 2020, is predicted to fall steadily through 2022.

Recent unprecedented increases in lumber prices currently are impacting housing affordability. Since mid-April, a surge of 160 percent in the composite price of lumber is adding approximately $16,000 to the price of a new single-family home and more than $6,000 to the average new apartment, according to the latest NAHB economic analysis. According to this analysis, escalating lumber prices are due to the fact that there is not enough domestic production since many mills reduced production due to stay-at-home orders and social distancing measures enacted by state and local governments at the onset of the coronavirus pandemic. The disruption in the domestic lumber supply chain has been exacerbated by tariffs averaging more than 20 percent on Canadian lumber imports into the U.S. market. NAHB is urging U.S. lumber producers to ramp up production and asking the Trump Administration to engage Canada in trade discussions to remove the tariffs on Canadian lumber shipments. However, the housing market will experience a severe slowdown if these shortages persist, adding another layer of uncertainty to economic forecasts.

NAHB's latest "Priced Out Estimates for 2020" published in January 2020, determined that for every $1,000 increase in the median new home price ($344,652) 158,857 American households are "priced out" and would no longer be able to afford such a purchase.

Other NAHB estimates in the 2020 study show that 25 basis points added to a 30-year mortgage rate of 3.75 percent would price out about 1.3 million households.

While interest rates and home prices are not the only predictors of the performance of the mortgage market, they do affect housing affordability, level of home purchase activity and refinancing activity. Currently, contradictory dynamics driven to a large degree by federal, state and local responses to the corona virus pandemic are impacting these components of the housing and mortgage market and increasing the difficulty of setting effective housing goals.

Current and Proposed Housing Goal Levels

Single-Family Housing Goals and Subgoals:

Goal	Criteria	Current Benchmark level for 2018-2020	Proposed Benchmark level for 2021
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	14 percent
Disaster Areas Increment to the Low-Income Areas Home Purchase Subgoal	Moderate income families (100% of AMI) in designated disaster areas	N/A	N/A

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

Multifamily Housing Goals and Subgoals:

Goal	Criteria	Current Goal Level for 2018-2020	Proposed Goal Level for 2021
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.	315,000 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

<u>NAHB's Comments</u>

In setting the housing goals for 2018-2020, FHFA did significant market analysis using revised market forecast models and considering additional variables thought to impact the Enterprises ability to meet their goals including an uneven economic recovery, stagnant wages, demographic trends and the Enterprises' share of the mortgage market. All these variables would still be relevant today, however, as the unexpected pandemic in 2020 has demonstrated, the most careful and thoughtful analysis can be rendered useless. NAHB supports FHFA's proposal to keep the 2018-2020 single family and multifamily housing goal levels for 2021 while the economy remains unsettled.

While the forecast for continued low interest rates and a fairly steady housing market combined with the strong housing goals performance of both Enterprises in 2019 might provide a case to increase the goals, NAHB believes the overall economic situation of the country is tenuous.

NAHB is concerned that the cost of the flexible policies put in place to support homebuyers, homeowners, servicers and lenders could cause the Enterprises to reduce their mortgage purchases altogether. Current estimates of the costs are over $6 billion: $4 billion due to forbearance defaults; $1 billion due to the foreclosure moratorium; and $1 billion in servicer compensation and other forbearance costs. It seems fair to assume these costs may rise since there is no clear picture of the length and impact of the ongoing corona virus pandemic and what future measures may need to be taken by FHFA.

Additionally, apartment communities with Enterprise-backed mortgages have been subject to various federal, state and local eviction moratoria since March, 2020 and the Corona Virus Aid, Relief and Economic Security (CARES) Act permits apartment owners with Enterprise-backed mortgages to request up to 90-days of mortgage forbearance until the earlier of December 31, 2020 or the end of the President's coronavirus emergency declaration. As residents struggle to make their rent payments and multifamily owners struggle to maintain their properties' financial viability against significant rent losses, the potential financial impact to the Enterprises is unknown.

FHFA requested input on factors that should be considered in determining whether to require an Enterprise to submit a housing plan. For example, FHFA asks if there are other Enterprise activities such as forbearance actions, loss mitigation efforts, loan modifications, and other market support activities that FHFA should take into account while reviewing Enterprise goals performance for 2021 on both the single-family and multifamily side.

NAHB believes now is not the right time to add goals for additional Enterprise activities. The Enterprises are taking actions as necessary to support the market during this unexpected and extreme crisis. Trying to set measures for determining how to gauge success would be difficult and could prove counterproductive.

From the beginning of the crisis, the Enterprises stepped in to support homebuyers, homeowners and lenders. As it became clearer that more support was needed, servicers also were offered relief. Once again, the Enterprises have demonstrated their value as government sponsored enterprises created to provide liquidity to the nation's housing finance market, particularly during times of financial stress.

In light of the significant unknowns facing the housing market and the economy in general, NAHB believes it is appropriate to allow the Enterprises another year of the current housing goals levels to allow them to focus on mitigating as much as possible the recent market upheaval.

Please contact Becky Froass, NAHB's Director of Financial Institutions and Capital Markets (email: rfroass@nahb.org or phone: 202-266-8529) or Michelle Kitchen, NAHB's Director of Multifamily Finance (email: mkitchen@nahb.org or phone: 202-266-8352) if you have any questions about this letter.

Sincerely,

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