October 13, 2020

Alfred M. Pollard, General Counsel,
Attention: Comments/ RIN 2590–AB04
Federal Housing Finance Agency, Eighth Floor
400 Seventh Street, S.W.
Washington, D.C. 20219

Dear Mr. Pollard:

The National Community Reinvestment Coalition (NCRC) thanks you for the opportunity to publicly comment on the Federal Housing Finance Agency's (FHFA) proposal to extend the 2018-2020 Enterprise Housing Goals for an additional year. NCRC has dedicated itself to the mission of building and protecting wealth in America's underserved communities for nearly 30 years.

This rulemaking represents an opportunity for the FHFA to fulfill the tremendous potential of the Enterprises' housing goals to ensure that Fannie Mae and Freddie Mac exert market leadership in addressing the most pressing credit access needs across the single-family and multifamily markets during this COVID-19 crisis and to ensure that the Enterprises support access to credit for the full spectrum of creditworthy borrowers. The affordable housing goals and the affordable housing activities they drive across the Enterprises in terms of loan products, loan purchases, stakeholder outreach and partnerships, investments and grantmaking are critically important, particularly as the COVID-19 crisis is unfolding. In summary,

- ✓ Tightening credit standards in the wake of COVID-19 are predictable but troubling signs that lower-income and minority homebuyers are facing barriers to access and affordability.
- ✓ Goal-setting for 2021 should reflect that the Enterprises must provide leadership in the mortgage market and not lag the market in making mortgage credit available. The agency should consider setting higher "benchmark" housing goals but also adopting pricing, product, outreach and other affordable housing policies that support the Enterprises in meeting those goals.
- ✓ Throughout 2021, FHFA and the agency's newly-created Division of Research and Statistics should provide topline data and trend insights into Enterprise acquisitions and affordable housing activities related to the goal-qualifying segments of the market and create new measurements to track the progress of minority homebuyers.

For millions of low- and moderate-income families and those living in underserved communities, a home is the single most important financial asset they will ever own, and for minority households, it is a significant source of household wealth. Overall, housing equity

makes up about two-thirds of all wealth for the typical (median) household, with the racial wealth gap being largely a housing wealth gap.[1] There is also little doubt that economic mobility is linked to one's starting point in life (e.g., the wealth of one's parents, the economic and social health of the community in which one is born).[2] Policy questions related to the accessibility and affordability of mortgage credit are central to how low- and moderate-income families access the wealth-building opportunity of homeownership and ascend the ladder of economic mobility. They are also key to neighborhood stabilization.

There are already troubling signs in the housing market for lower-income and minority home buyers

Despite some contraction in the mortgage market in March and April, FHFA has noted that "the purchase market rebounded in a strong V-shaped recovery." [3] Between June and August, purchase-mortgage applications were on track to be more than 20% higher, on average, compared to the same period in 2019. Despite signs of recovery this year, the proposed rule acknowledges that the availability of credit has contracted due to a variety of factors, including additional down payment and loan-to-value restrictions and generally tightened underwriting requirements. Higher balance loans have led home purchase and refinance applications this year. The Enterprises' refinance acquisitions in the second quarter had higher credit scores, lower DTIs and lower LTVs. The Mortgage Bankers Association reported at the end of September that mortgage credit availability decreased to its lowest level since February 2014, with few lower credit score and higher loan-to-value loan programs.

Tight credit standard impacts LMI and minority borrowers most

As the last crisis made clear, lower-income, African American and Hispanic households disproportionately bear the impact of overly tight mortgage lending standards[4]. While FHFA has noted that the loan risk factors such as average credit scores, debt-to-income (DTI), and loan-to-value (LTV) ratios on the Enterprises' second quarter acquisitions of purchase mortgages have changed only slightly this year compared to last, this is inadequate to ensure that creditworthy lower-income and minority home buyers have access to affordable mortgages and homeownership. For the last several years, average credit scores on Enterprise acquisitions

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[1] Janelle Jones, *The racial wealth gap: How African-Americans have been shortchanged out of the materials to build wealth.* See also, Asante-Muhammad, Dedrick and Jamie Buell, *Racial Wealth Snapshot: African Americans And The Racial Wealth Divide*, National Community Reinvestment Coalition (February 2020) and *The Ever-Growing Gap: Without Change, African-American and Latino Families Won't Match White Wealth for Centuries*, Prosperity Now (August 2016).

[2] Ray Boshara and David Buchholz, *Economic Mobility: An Overview*, The Federal Reserve Bank of St. Louis.

[3] Testimony of Director Mark Calabria before the House Financial Services Committee, September 14, 2020.

[4] *Overly tight credit killed 1.1 million mortgages in 2015*, Urban Institute (November 21, 2016) and *Tight credit has hurt minority borrowers the most*, Urban Institute (April 8, 2015).

have remained historically high, crowded at the top of the credit box. More than 70% of Fannie and Freddie acquisitions are at or above a 720 credit score, with more than half above 750.[5] This is particularly worrying considering that more than 40% of all credit scores nationally fall below 700.[6] In recent years, Fannie and Freddie have taken considerably less risk to expand and facilitate access to mortgages than is consistent historically with periods of safe and sound lending.[7]

The Enterprises must provide market leadership to ensure both that lower-income and minority families have access to homeownership and the racial wealth gap does not widen further

Even before the current public health and economic crisis unfolded, gains in the Black homeownership rate made since the passage of the Fair Housing Act have been erased, with gains in the Hispanic homeownership rate eroded considerably.[8] If the past economic crises are prologue, the homeownership rate among low- and moderate-income households and Black and Hispanic families will decline during this COVID-19 crisis, and the racial wealth gap will widen further. Both FHFA and the Enterprises have a critical policy role to play to ensure that lower-income, Black and Hispanic homebuyers maintain access to the affordable mortgages during this time and do not lose further ground as the economy recovers from COVID-19. How the Enterprises meet and carry out the mission in their Congressional charters and their affordable housing goals will impact whether and to what extent this segment of the market loses ground and whether the recovery is equitable.

The two-part approach to the goals does not provide enough incentive for market leadership

We continue to have concerns about the current two-part approach to the goals. Enterprises can comply with their housing goal obligations by meeting either the prospective "benchmark" level or a retrospective "market" level. In NCRC's 2014 and 2017 comments, we laid out a number of reasons why we believe the current approach to the goals is inconsistent with the statute. It fails to reflect the law's intent: to maximize access to credit for creditworthy, low-income borrowers consistent with a sound financial condition. Too frequently, the Enterprises are not keeping pace with market originations - in many instances simply matching or lagging the goal-qualifying segments of the market as well as the broader conventional market in making credit available for low-income and minority borrowers and communities.

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[5] *Fannie Mae and Freddie Mac Single Family Guarantee Fees in 2018.* FHFA (December 2019); FHFA Annual Housing Reports 2018 and 2019.

[6] *Housing Finance Reform: Access and Affordability in Focus*, Counselor Antonio Weiss and Assistant Secretary for Economic Policy and Karen Dynan, Medium (October 26, 2016)

[7] *Squeaky-clean loans lead to near-zero defaults-and that is not a good thing*, Urban Institute (August 31, 2016).

[8] *Are gains in black homeownership history?* Urban Institute (February 14, 2017)

In 2010, when the two-part approach was proposed, FHFA recalled the legislative history of the housing goals. The housing goals law stemmed from a concern that Enterprise purchases had not kept pace with market originations of mortgages to low- and moderate-income borrowers.[9] In the early 1990s, Congress determined that, even with Fannie Mae's 30% benchmark in place, the Enterprises' mortgage purchase activities were not adequately meeting credit needs in underserved markets. And so, in 1992, Congress enacted the Federal Housing Enterprises Financial Safety and Soundness Act, once again charging the Department of Housing and Urban Development with establishing and enforcing numeric housing goal targets. According to the 1992 Act's legislative history, it was expected that the Enterprises would "lead the industry" in making mortgage credit available to targeted borrowers and that the Enterprises would have to "stretch" to meet the goals.[10] The market challenges resulting from COVID-19, such as tightening credit standards and higher and more risk-based pricing, warrant stronger policy action and greater market leadership by the Enterprises to ensure that lower-income and minority borrowers and communities continue to have affordable access to the conventional mortgage market.

At a minimum, the Enterprises should have to meet or exceed both metrics

Notwithstanding our continuing concerns about the current approach, we agree with the comments submitted by the Center for Responsible Lending and others that the two-part approach could be improved by requiring the Enterprises to meet ***both*** the benchmark and the market metrics. Additionally, meeting of the market metrics and by how much Fannie and Freddie exceed the market should be a significant factor in evaluating the Enterprises' performance on a housing goal.

FHFA should set higher 2021 "benchmark" goals, but also facilitate the Enterprises being able to meet them

Given the Enterprises past performance exceeding their benchmark goals as well as higher goals set in 2010 following the financial crisis, we do believe FHFA should consider setting stronger 2021 benchmark goals that stretch the Enterprises. As Fannie Mae aptly noted in 2010 comments, the market leadership required to be considered in FHFA's goal-setting pursuant to the statute should encompass "the ability to the Enterprises to address the market's most pressing concerns." Ensuring that lower-income and minority borrowers and underserved communities continue to have access to conventional mortgage credit as the economy recovers from the economic disruption caused by COVID-19 and stemming further widening of the racial wealth gap should certainly be a pressing concern in this round of goal-setting.

FHFA's capital standards and other pricing policies

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[9] S. Rep. No. 102-282, at 10-11 (1992). Federal Register /Vol. 75, No. 38 at 9035

[10] S. Rep. No. 102-282

Consistent with our prior joint and other comments, we would urge FHFA to reevaluate the Enterprises pricing policies, including FHFA's re-proposed capital rule, the adverse market refinance fee and other fees related to the response to COVID-19. Pricing is a barrier to access and affordability for creditworthy borrowers with varying risk profiles and it undermines the ability of Fannie and Freddie to serve borrowers across the credit score spectrum. Even before COVID-19, the average credit score of the typical new mortgage borrower was nearly 40 points higher than the typical borrower in the early 2000s.[11]

We have expressed our concern that bank-like capital requirements for the Enterprises and both Fannie and Freddie have identified various aspects of that re-proposed capital rule that could undermine their ability to fulfill their affordable housing mission and expand access to affordable mortgage credit for lower-income and minority borrowers and communities across the country. The 250% increase in the Enterprises' guarantee fees and risk-based pricing (loan-level price adjustment (LLPAs)) following the financial crisis has had a number of effects to varying degrees that some predicted, including more banks holding fixed-rate loans on portfolio, more financing of lower-credit score borrowers by the Federal Housing Administration and fewer originations to the underserved overall. In addition, as we stated in our 2017 comments, increases in mortgage insurance premiums following FHFA's Private Mortgage Insurance Eligibility Requirements (PMIERS) rule further complicated affordable access for a substantial segment of creditworthy borrowers who are also facing other pricing constraints, such as LLPAs. Both Enterprises should ensure that profile pricing extends to mortgage insurance to mitigate the finer risk-based pricing implemented since PMIERS.

Expand Offering of Affordable and Sustainable Mortgage Products; Bonus Points

Both Enterprises should also call upon their institutional knowledge of safe and sustainable products, investments and partnerships so that both can better fulfill their affordable housing missions and provide better mortgage access to the creditworthy families across the country who are currently being frustrated in their efforts to achieve homeownership.

The Enterprises have offered a variety of products that performed well through the last financial crisis that they should offer now to address identified affordability issues. The conservatorship should not inhibit the Enterprises from exercising greater market leadership on affordability and introducing more affordable products into the market. For example, the Enterprises have developed and/or offered: sweat equity mortgage products; products for workforce housing; Native American products customized to tribal lands; working mortgages that allow faster pay-off; modifiable mortgages; products for those with disabilities; mortgage products that include mortgage cancellation insurance. Greater product variety that addresses the affordability challenges facing today's borrowers can help maximize access to credit consistent with prudent risk management. The GSEs have substantial knowledge about those products that can work consistent with safe and sound lending. Accompanying the expanded

[11] Ibid, note 6.

product offerings with a requirement of housing counseling would also ensure such lending is sustainable for borrowers and safe and sound for the Enterprises.

NCRC's 2017 comment also urged the Enterprises to re-consider temporary bonus points and temporary adjustment factors, which have a demonstrated history of success of expanding access quickly where gaps in the market occur. These incentives can be short term, but could have tremendous impact on the availability of credit in underserved markets, including those not eligible for Duty to Serve credit.

The Importance of Outreach to Key Demographics & Partnerships

Both Fannie Mae and Freddie Mac have a history of working with and training effective intermediaries that serve families of modest means and minorities. The Enterprises have partnered more with local nonprofits in the past. They have also invested in Community Development Financial Institutions (CDFIs) to facilitate affordable housing. They should do both to a greater degree going forward.

In conservatorship, both Enterprises have partnered less and spent millions less on outreach in underserved communities. When the Enterprises partner with effective intermediaries and community-based organizations - minority mortgage brokers and realtors, minority mortgage lenders, churches, trade associations and other organizations that reach the nation's most underserved borrowers and communities – they build local homeownership capacity and help facilitate access to sustainable credit in low- and moderate-income and minority communities. FHFA's goal-setting should incent the Enterprises to expand their marketing and outreach and partnerships in the nation’s most underserved communities, given substantial affordable housing needs and challenges and demographic trends.

FHFA and the newly-created Division of Research and Statistics should provide more information about the goal-qualifying segment of the market throughout 2021

As a part of setting the housing goals, FHFA usually completes a study of the mortgage market and provides multiyear forecasts for each of the goal-qualifying segments. Because of the market disruption created by COVID-19, the agency is proposing to provide those market forecasts and conduct a new round of notice and comment rulemaking next year for 2022 and beyond. FHFA acknowledges the possibility that the agency itself, or pursuant to an Enterprise petition, could reduce any of the single-family or multifamily housing goals based on certain findings. FHFA is monitoring how COVID-19 and various market developments are impacting various segments of the market, including those targeted by the housing goals. FHFA has also created the Division of Research and Statistics to strengthen its data collection and analysis capabilities, enabling FHFA to understand, in real-time, how circumstances have changed over the course of the crisis. We agree with the UnidosUS comment letter that the agency should use these and other capabilities to implement new measurements to track the progress of minority borrowers.

As mentioned above, the Enterprises have a significant history of developing underwriting guidelines and products, making investments and developing partnerships that have safely expanded credit to underserved communities. This should grant the Enterprises the flexibility to call on their considerable historical data of safe and sustainable products and investments to ensure the broadest possible market of creditworthy borrowers is served across the credit spectrum as the nation recovers from the COVID-19 crisis, including those who are low- and moderate-income, minority and rural.

Throughout 2021 on at least a quarterly basis and before any adjustment to the goals is considered, it is critical that the agency provide real-time and more timely information to the public about the Enterprises acquisitions in the markets targeted by the goals as well as the affirmative steps the Enterprises are taking, including products, pricing, outreach, partnerships, initiatives to address gaps in access and affordability that may be developing for these segments of the market as a result of COVID-19, to include the following:

- trends in the goal-qualifying segments of the markets and specifically about Enterprise acquisitions and performance;
- trends in average credit scores on Enterprise acquisitions, as well as information demographic profiles and borrower income;
- performance of affordable housing products and offerings that are targeted at addressing goal-qualifying segments of the market;
- performance of the HomeReady and Home Possible loan products and any related outreach to sellers, realtors, housing finance agencies and nonprofits to improve market distribution of those and other affordable products;
- enhancement to Desktop Underwriter and Loan Prospector to expand access or address gaps in access to lower-income borrowers, Black and Hispanic borrowers, first-time home buyers and underserved communities;
- any pilots and other new initiatives focused on lower-income borrowers, minority borrowers;
- key partnerships with housing finance agencies and intermediaries, and any other outreach efforts at the point of sale targeted at improving access for the goal-qualifying segments of the market;
- Other strategies, such as cash spot bids, affordable bulk deals and credit model changes.

Conclusion

The Enterprises own or guarantee approximately $6 trillion in mortgages. That includes about 43% of multifamily units, about 8.6 million households, and more than half of single-family mortgages. FHFA has acknowledged that the agency's policies help set standards for the entire mortgage market. Through their affordable housing goals and related policies, they have tremendous power to ensure that low- and moderate-income and minority home buyers have equitable and affordable access to the mortgage market throughout this COVD-19 crisis. While FHFA and the Enterprises are taking critically important steps to address issues around mortgage servicing and loss mitigation given the scale of the COVID-19 public health and economic crisis, it is equally important that the agency and the Enterprises also address the access and affordability challenges that lower-income and minority borrowers and communities are facing as a result of tightening credit and higher and more risk-based pricing.

Sincerely,

National Community Reinvestment Coalition
California Reinvestment Coalition
Leadership Conference on Civil and Human Rights
NAACP
New Jersey Citizen Action