



National Council of
State Housing Agencies

February 28, 2021

Dr. Mark Calabria, Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20219

RE: Regulatory Information Number (RIN) 2590–AB12: Advanced Notice of Proposed
Rulemaking on Enterprise Housing Goals

Dear Dr. Calabria:

The National Council of State Housing Agencies (NCSHA)¹ appreciates the opportunity to respond to the Federal Housing Finance Agency’s (FHFA’s) Advance Notice of Proposed Rulemaking (ANPR) on Enterprise Housing Goals. NCSHA represents the nation’s state housing finance agencies (HFAs).

We appreciate your willingness to consider comments received in response to this ANPR on the establishment of the housing goals benchmark levels for 2022 and beyond. Our comments are focused on Questions 3 and 4 posed in the ANPR. In response to these questions, we support providing credit to affordable housing lending in Opportunity Zones and affirm the value of the affordable housing goals in incentivizing the Enterprises to expand their affordable housing activities.

We urge FHFA to establish robust goals that push the Enterprises to do as much responsible affordable lending as possible and to serve underserved markets better. We also recommend that FHFA encourage the Enterprises to increase lending to people of color and address impediments to increased Enterprise support for HFA affordable housing lending.

Background on State HFAs

State HFAs are at the center of the nation’s affordable housing delivery system and are focused on meeting the affordable mortgage finance needs of the low- and moderate-income

¹ NCSHA is a nonprofit, nonpartisan organization. None of NCSHA’s activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

homebuyers and renters in their states. In 2019, state HFAs helped nearly 165,000 homeowners receive more than \$32 billion in affordable first mortgage loans. Sixty percent of all state HFA home loans in 2019 went to borrowers earning at or below area median income. The median borrower income for all state HFA program loans in 2019 was \$56,387. The national average purchase price of HFA program loans in that year was \$160,464. This is well below the conforming loan limit of that year and underscores that our members are serving well their affordable housing mission. While 29 percent of HFA program loans went to people of color and 33 percent to female-headed households, state HFAs are focused on increasing their delivery of mortgage financing to these underserved groups, particularly homebuyers of color, and the Enterprises can and should be important partners in these endeavors.

State HFAs issued more than \$9 billion in tax-exempt housing bonds in 2019 to help produce almost 58,000 affordable rental homes. State agencies also allocated more than \$1.6 billion in Housing Credits to help produce more than 132,000 affordable rental homes in 2019.

Credit for Loans in Opportunity Zones

Opportunity Zones were created by Congress in the Tax Cuts and Jobs Act of 2017 (H.R. 1) to encourage investment in designated high-poverty neighborhoods. To the extent the Enterprises purchase or credit enhance single-family and multifamily loans made in Opportunity Zones, they should receive credit. However, we encourage FHFA to analyze to what extent Opportunity Zones do not already lie in census tracts for which they would already receive housing goals credit. Should there be Opportunity Zones that do not lie entirely within census tracts for which the Enterprises would already receive goals credit, we support them receiving housing goals credit for purchasing or credit enhancing loans in Opportunity Zones. We also support the Enterprises earning additional credit for loans purchased or credit-enhanced in Opportunity Zones in areas that would otherwise qualify for goals credit, although we do not believe that the Enterprises should receive as much as double credit, should that be under consideration by FHFA.

Housing Goals Support of Low-Income Lending

We believe the housing goals have provided a strong incentive to the Enterprises to expand their low-income homeownership and rental lending and to create stronger partnerships with HFAs. However, with the 2019 changes to the Enterprises' HFA-specific products, which limited the Enterprises' support for HFA single-family loans to homebuyers at or below 80 percent of area median income, the usefulness of those products has been curtailed: only about 31 percent of HFA program loans in 2019 utilized either Fannie Mae or Freddie Mac financing.

State HFAs generally rely on their lender partners to originate their affordable mortgage program loans. Because many of their lender partners only offer Fannie Mae and/or Freddie Mac products, the Enterprises have been, and remain, important partners for state HFAs in the achievement of their mission.

The ANPR asks if the goals expand low-income homeownership. We think they do. Whether state HFA and other loans might have been purchased by an Enterprise in the absence of their housing goals is not as relevant as whether the goals provide a strong incentive to increase such lending—which we believe they do. The Enterprises’ role in improving liquidity, pricing, and access all suggest strong housing goals are meaningful and important.

While Fannie Mae and Freddie Mac met their affordable housing goals in 2019, we believe they can do even more, and the goals should push them to do more. In addition to appropriate benchmarks, another way FHFA could further expand homeownership is by authorizing the Enterprises to support HFA lending for homebuyers at or below the limits set by Congress and the Internal Revenue Service for the income-targeted Mortgage Revenue Bond (MRB) program: 115 percent of area median income. This would enable the state HFAs and their lender partners to better serve their lower income, creditworthy residents who, with the significant price appreciation of the past year and growing gap in the amount of affordable housing compared to demand, are finding themselves being more and more squeezed out of home purchase markets nationwide. It also will help align various program requirements, making it easier for lenders who are regional or national in scope to offer the affordable mortgage loans offered through state HFAs.

Support Increased Enterprise Lending to Persons of Color

FHFA should consider revising the Enterprises’ housing goals to encourage them to meet the large and conspicuous gap in homeownership rates between whites and people of color. As has become more clear and discussed more widely, persons of color have lost out on the wealth-building opportunities of homeownership over time and have lost significant ground since The Great Recession. In fact, according to the U.S. Census Bureau, the fourth quarter 2020 homeownership rate for non-Hispanic whites is 74.5 percent, as compared to the homeownership rate of Black households of 44.1 percent², the latter of which is nearly the same rate it was the year the Fair Housing Act was enacted. The homeownership rate of Hispanic households is 49.1 percent, also exhibiting a significant gap. Hence, it is only fitting that the Enterprises play a stronger role in meeting the needs of communities of color.

The transmittal letter contained in FHFA’s Annual Report to Congress for 2019 describes how “...the Safety and Soundness Act requires each regulated entity to establish an Office of Minority and Women Inclusion, or a functional equivalent, to develop and implement standards and procedures to ensure, to the maximum extent possible, the inclusion and utilization of minorities and women **in all business and activities** (emphasis added)...”³ Additionally, the

² US Census Bureau, “Quarterly Residential Vacancies and Homeownership, Fourth Quarter 2020, Release Number: CB21-15; page 9.

³ FHFA Report to Congress 2019, page ii.

letter describes the three goals FHFA established for the Enterprises, including “Goal 3: Foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets.”⁴

We propose that, in formulating future Enterprise goals, FHFA merge these two concepts and advance both of these mandates by incorporating within the affordable housing goals regulations clearer and stronger incentives for the Enterprises to increase mortgage lending to persons of color.

A national housing market that does not serve the needs of all Americans is neither efficient nor liquid, and Fannie Mae and Freddie Mac can and should play a bigger role in helping increase the homeownership rates of people of color. A particular objective should be helping low-wealth families obtain affordable mortgages. “Low-income” is not synonymous with “low-wealth;” the former measures a homebuyer’s on-going ability to meet its financial obligations; the other has come to describe homebuyers who cannot access family wealth for down payment assistance but who otherwise would qualify for a home mortgage loan. These are the homebuyers state HFAs assist through their down payment assistance programs (DPA), which are a critical component of state HFA single-family home loan programs.

Eliminate Anti-DPA Policies

In 2019, on average, over 80 percent of state HFA borrowers received DPA, an increase of almost 4 percent over 2018, illustrating the growing importance of state HFA DPA programs in meeting the needs of low-wealth homebuyers in their states. The average amount of down payment assistance provided to state HFA program borrowers in 2019 was \$7,212. This amount is slightly larger than half the federal tax-free gift amount of \$15,000. However, if a homebuyer’s parents have not been able to build wealth from homeownership, then even that amount is too high a hurdle for an otherwise creditworthy homebuyer who then depends on savings and receiving DPA to become a homeowner.

NCSHA and its members appreciate the leadership that Freddie Mac has shown in helping to standardize DPA documentation nationwide to help increase regional and national lender participation in state HFA programs. This is important and worthwhile work that will help more low-wealth homeowners achieve homeownership, many for the first time in their families. But HFAs also need liquid secondary markets for these loans -- liquidity that does not adversely score them in automatic underwriting systems. FHFA should revise the way it applies housing goals credit to encourage Fannie Mae and Freddie Mac to support equity-centered—and therefore more efficient and liquid—housing markets.

Finally, we urge FHFA, as part of its review of ways to expand homeownership through its housing goals regulations or otherwise, to consider what it itself can do to facilitate this greater role that we are proposing for Fannie Mae and Freddie Mac. One example that comes to mind is

⁴ Ibid, e.g., page ii, and page 8.

working with the U.S. Treasury Department to amend Section 5.14 (“Acquisition of Certain Loans”) of each Enterprise’s Preferred Stock Purchase Agreement Amendments dated January 14, 2021 by deleting or amending clause (a)(i), which limits Enterprise purchases of loans that have a combined loan-to-value ratio at origination of more than 90 percent, if the borrower also has a debt-to-income (DTI) ratio exceeding 45 percent or a credit score below 680.

As DPA usually increases the combined loan-to-ratio (CLTV) of mortgage loans to lower income and low-wealth homebuyers beyond 90 percent, this provision acts at cross purposes with each Enterprise’s housing goals. Furthermore, many loans with CLTVs greater than 90 percent are safe and sound, as HFAs have shown.

We also suggest you review item 5.14(a)(ii), which uses a homebuyer’s DTI ratio as a criterion for limiting Enterprise lending, since research has shown this is not a particularly reliable measure of ability to pay.

Thank you in advance for your consideration of these issues. Please let us know if we can provide additional details on any of the matters discussed.

Sincerely,

A handwritten signature in black ink, appearing to read "Garth Rieman", with a long horizontal flourish extending to the right.

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives