Fannie Mae

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October 25, 2021

Clinton Jones, Esq.
General Counsel
Attention: Comments/RIN 2590-AB12
Federal Housing Finance Agency
400 Seventh Street, S.W.
Washington, DC 20219

Re: Notice of Proposed Rule and Request for Public Comment concerning the 2022-2024 Enterprise Housing Goals, RIN 2590-AB12

Dear Mr. Jones:

On behalf of the thousands of individuals who work for Fannie Mae, we would like to express our appreciation for the opportunity to submit comments to the Federal Housing Finance Agency ("FHFA") Proposed Rule on Enterprise Housing Goals for 2022-2024 ("Proposed Rule").

We strongly support FHFA's expressed desire to expand equitable and sustainable access to quality housing opportunities for both renters and homeowners. We look forward to working with FHFA over the course of the three years covered by the Proposed Rule to support housing for all individuals and families in this country. In this letter, we reiterate our support for FHFA's ambitions, which are well-aligned to our statutory purposes and objectives, while highlighting certain areas of concern based on our view of market conditions.

I. Executive Summary

Section II below provides an overview of Fannie Mae's mission-focused activities during the term of the current three-year housing goal period, and notes some overarching considerations for FHFA associated with the proposed higher benchmarks.

Section III considers FHFA's single-family model for the next three years, as compared with Fannie Mae's projections, and addresses the specific purchase and refinance benchmarks. The higher purchase benchmarks are potentially achievable based on historical performance, although subject to substantial uncertainty, while the much-higher low income refinance benchmark will be particularly challenging to attain annually.

Section IV addresses the Proposed Rule's provisions relating to Fannie Mae's multifamily business, noting the challenges posed by current multifamily market dynamics and competing regulatory requirements and safety and soundness considerations that, notwithstanding our sustained commitment to meet or exceed these important mission-driven goals, pose substantial concerns regarding our prospects for achieving certain heightened requirements in the Proposed Rule.

Section V suggests a number of revisions to the special counting requirements and housing plan provisions of the existing housing goals rule that we believe are appropriate given current market conditions.

Section VI adds an appeal for FHFA to engage with other financial regulators to better align our mission-driven housing goals and duty to serve requirements ("Duty to Serve")[1] with the obligations of banks and other insured depositories under the Community Reinvestment Act ("CRA").[2]

II. Introduction

Fannie Mae was first chartered by the U.S. Government in 1938 to help ensure a reliable and affordable supply of mortgage funds throughout the country. Today, we continue to perform this critical role, providing liquidity, affordability, and stability for the nation's housing finance system. Our mission is the expression of this responsibility and purpose, underscoring that our work is in service of our nation's homeowners and renters.

As we prepare for the next three-year period of housing goals efforts, we are encouraged by what we have accomplished. Fannie Mae has achieved much during the term of the current housing goals rule. Since the existing regulation became effective in 2018 through 2020, Fannie Mae has:

- Acquired over two million single-family loans to very low- and low-income families.
- Financed over 1.2 million multifamily rental units affordable to very low- and low-income renters.

[1] 12 U.S.C. § 4565; 12 C.F.R. § 1282.31 *et seq.*

[2] The Community Reinvestment Act of 1977, as amended, is codified at 12 U.S.C. § 2901 *et. seq*.

During this time, Fannie Mae undertook a number of steps to provide housing stability and to facilitate the financing of housing for families of modest means including:

- Making several innovative updates to Desktop Underwriter® ("DU") to support sustainability and stabilization of the housing market due to rapidly changing economic conditions, including the groundbreaking recent update to incorporate a single-family borrower's history of recurring rent payments in the mortgage credit evaluation, thereby expanding access to credit in a safe and sound manner.
- Providing financing for more than 1.7 million first-time homebuyers.
- Initiating nearly 1.4 million single-family forbearance plans to help borrowers since the onset of the COVID-19 pandemic through June 30, 2021, and providing a wide range of alternatives for borrowers to exit forbearance, including a robust payment deferral option.
- Launching the educational *Here to Help* marketing and communications initiative to directly reach over 150 million homeowners and renters financially impacted by COVID-19 as well as to support servicers in implementing new policy and operational changes.
- Developing in 2021 a new refinance program, RefiNow™, to make it easier and less expensive for lower-income borrowers to reduce monthly housing costs through a refinance transaction.
- Providing affected homeowners and renters with assistance through our Disaster Recovery Network™ , offering guidance for accessing federal, state and local financial aid and access to HUD-approved counselors, fielding over 90,000 calls, 73% of whom were renters.
- Promoting homeownership affordability for those living in manufactured housing by expanding single-width manufactured home eligibility, and allowing a manufactured home to be eligible as an accessory dwelling unit, which helps to combat the affordable supply crisis in markets across the country.
- Providing support to public housing authorities in their efforts to revitalize and expand the supply of affordable housing stock for very low-income renters.
- Incentivizing multifamily borrowers to create safer and healthier living environments via our Healthy Housing Rewards™ program.

- Launching the Sustainable Communities Innovation Challenge to recognize and support private-sector efforts at the local level to create housing that delivers not only affordability, but also access to viable employment opportunities, health care, and educational options.

Fulfilling our mission requires that we reach beyond the status quo to extend further the benefits of the secondary mortgage market to low-income and underserved borrowers and renters. Housing goals for Fannie Mae and Freddie Mac (the "Enterprises") are a vital tool in this regard, encouraging lenders to reach more low-income and underserved borrowers with the expectation that the Enterprises may purchase such loans. At the same time, Fannie Mae and our business partners engaged in the residential markets today know that building a housing system that is more affordable, fairer, and more resilient is a long-term project that transcends yearly, quantitative goals. Our housing system has meaningful qualitative gaps – racial gaps, access gaps, supply gaps – that must be bridged. We are committed to taking concrete steps during the three years covered by the Proposed Rule, and beyond, to help build those bridges.

We therefore appreciate FHFA's leadership in directing the Enterprises to prepare Equitable Housing Finance Plans to address some of these persistent gaps. Sustainable homeownership has long been a main driver of generational wealth. Fannie Mae believes that addressing racial inequities in housing will allow more people of color to build wealth and economic stability and, in turn, make the United States more prosperous. We are actively working to finalize our plan, which has been informed by our participation in the public listening session on September 28, and we look forward to reviewing the public submissions made in response to FHFA's published request for input concerning our plan. As with the increased benchmarks in the Proposed Rule, this initiative will engender creativity and innovation at Fannie Mae, and at FHFA. We are excited about this prospect.

Today, and during the three years of the next housing goals rule, Fannie Mae is dedicated to creating positive environmental, social, and economic outcomes for families and communities through responsible mortgage finance. Safe, affordable housing is at the foundation of economic well-being for individuals and families — and at the center of healthy, vibrant communities. We recognize that successfully achieving these objectives will mean we cannot rely exclusively on the tools and methods of the past. Rather, solutions to these historically intractable problems will require innovation – new tools and methods – pressure tested to be safe and sound, that will help us realize progress in these areas. We look forward to working with FHFA, as regulator and conservator, to develop these new approaches to complement the existing ones that have proven to be effective. Whether these emerge through existing processes, “test-and-learn” pilots, or joint development with other market participants, Fannie Mae remains determined to be recognized as a trusted and reliable thought-leader in this vital effort.

As we strive to meet the benchmarks that FHFA establishes in its final rule, we will be mindful not to supplant private capital where its already efficiently deployed. In some cases, we recognize that we may miss achievement of a housing goal because other parts of the residential finance market are robust, healthy, active, and competitively providing liquidity. Fannie Mae was not created to supplant or stifle the private market. Rather, our Charter requires us to “respond appropriately” to the private market.[3] We will continue to pursue our mission with vigor, and will remain sensitive to directing our energy and scarce capital where it is most acutely needed during the three years covered by the Proposed Rule. This is especially so as Fannie Mae continues to address its capital position through the Enterprise Regulatory Capital Framework (ERCF) to close the gap toward a better capitalized condition.[4] Moreover, the higher benchmarks in the Proposed Rule, both for single-family and multifamily, may necessitate Fannie Mae to revisit its pricing strategy with FHFA to assure that we have the ability to appropriately adjust our business mix in support of achieving those higher benchmarks.

In closing, we are aware that, as a secondary market investor, there are limits on what we can do to foster mortgage lending to any consumer, irrespective of their income level. We need the cooperation of others to do that. We would welcome a broad-based effort among the Enterprises, their lending customers, local governments, and trade associations, all under FHFA’s leadership, to make very low- and low-income consumers, especially from historically-underserved communities, better aware of the opportunities to purchase homes using conventional financing. Similarly, while lower mortgage rates continue to prevail, reaching and helping existing homeowners in these communities prepare to refinance their higher-interest loans will be important step toward enhancing resiliency and sustainability through lowering the cost of ownership. Fannie Mae believes it will be important for us to build a coalition to raise consciousness, and the number of loan applications, among families in these communities over the next three years.

[3] 12 U.S.C. §1716.

[4] We have increased our net worth to $37.3 Billion as of June 30, 2021.

III. **Single-Family Housing Goal Comments**

This section will review Fannie Mae's comments on FHFA's proposal to increasing the benchmark levels for the low-income home purchase ("LIP"), very low-income home purchase ("VLIP") and low-income refinance ("LIR") goals for 2022 to 2024 from the current benchmark levels used in 2018 to 2021. Under the new proposal the LIP benchmark is set at 28% (versus 24% in the current rule), the VLIP benchmark is set at 7% (versus 6% in the current rule), and the LIR benchmark is set at 26% (versus 21% in the current rule). The Proposed Rule would also replace the low-income areas ("LIA") subgoal with two new area-based subgoals targeting the individual components of the existing LIA (minority census tracts and low-income census tracts).

FHFA notes that its establishment of the proposed single-family benchmarks depends heavily on its models of the mortgage market and economy for the coming three years. Based on its models, FHFA believes the new benchmarks, while challenging, are feasible. Fannie Mae's own models make us less sanguine about the feasibility of the benchmarks, as this section will discuss. The Appendix includes information on what Fannie Mae's models predict. These models do not guarantee results, but help provide context around the *possible* range of outcomes for the size of the various markets, and inform our views on the achievability of the proposed benchmarks.

Before we address the benchmark levels in the Proposed Rule, Fannie Mae asks FHFA to recognize how vital ongoing innovation will be in meeting the ambitious benchmarks in the Proposed Rule. We are convinced that developing new approaches will be a key tool to boost the current shares of very low- and low-income loans acquired by Fannie Mae. Examples of these sorts of innovation include our DU option of considering timely recurring rental payments in evaluating an applicant's creditworthiness, and efforts to reduce the costs for refinance loans for lower-income borrowers, as our RefiNow program does. We look forward to continuing to work with FHFA to further enhance RefiNow, and presenting a series of innovations to FHFA with the hope that they can be swiftly implemented as part of our evolving effort to help borrowers seeking to purchase, or refinance, affordable homes.

With regard to the single-family loan purchase benchmarks in the Proposed Rules, Fannie Mae views them as presenting us with challenging standards to strive for during the next three years. We are cautiously optimistic regarding our projected ability to achieve them based on historical performance, tempered by the uncertainty inherent in modeling and forecasting. Conversely, significant uncertainty over future market conditions for refinance loans as well as weaker incentive to refinance for existing homeowners with lower-balance mortgage loans are among factors that may prevent us from realizing the much higher refinance benchmark in one or more of the next three years.

Purchase Benchmarks

While both benchmarks increase by 16.7%, Fannie Mae's model for the market during the next three years anticipates it will be comparatively more challenging for Fannie Mae to meet the proposed LIP benchmark than the proposed VLIP benchmark. Nevertheless, as noted above, Fannie Mae's analysis shows that these benchmarks could be achievable based on our current acquisition data. At the same time, there are many market factors[5] and regulatory issues[6] outside the Enterprises' control that pose risks to meeting these purchase benchmarks during the three-year term of the rule, which together serve to cast doubt on our annual prospects to achieve them.

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[5] In the primary market these include continued lack of affordable housing inventory available for sale, increasing home prices as a result of buyer competition for available homes, and disruption in income and employment stability that resulted from the COVID-19 pandemic, all of which may lead to lower demand and impact mortgage loan eligibility at a higher rate for lower-income borrowers. Secondary market dynamics , including lender interest in holding these loans in their portfolios rather than selling them, consumer demand and lender preference for conventional loans versus Ginnie Mae-eligible business, and the secondary market activities of other investors will influence the Enterprises' ability to achieve the benchmarks.

[6] For example, changes to the Senior Preferred Stock Purchase Agreement ("SPSPA") may impact success in meeting housing goals. The January 2021 changes to the SPSPA require Fannie Mae to limit the purchase of certain risk layered loans, including those qualifying for housing goals. While borrowers of loans that are housing goal-eligible have relatively lower income, this does not necessarily mean that these borrowers present higher risk. However, a lower-income borrower may often make a relatively smaller down payment or have a greater share of their income committed to debt payments, making it more likely that they fall within the scope of the SPSPA limitations. This may make it more difficult for Fannie Mae to meet housing goal benchmarks while also complying with the terms of the SPSPA. It may also have an indirect impact by discouraging lenders from marketing or accepting conventional loan applications from lower-income consumers whom lenders think may be subject to the risk layering provisions of the SPSPA. On September 14, 2021, FHFA and Treasury agreed to suspend enforcement of this component of the SPSPA. However, the suspension is temporary (one year) and, depending on its duration, the risk-layering provision of the SPSPA may still impact Fannie Mae's ability to meet its single-family housing goals or subgoals during the three-year term of the Proposed Rule.

In addition to these potential structural impediments to success, Fannie Mae notes that the recent rapid increase in home prices will likely lead to a significant increase in the levels of the statutorily-determined conforming loan limits for 2022, as has been speculated in the media. These higher limits, if implemented by FHFA and the Enterprises, would make a significant number of currently ineligible loans eligible for sale to Fannie Mae, disproportionately favoring higher-income borrowers if area median incomes ("AMI") do not rise proportionately. Mathematically, despite continued and expanded efforts to facilitate LIP lending, this dynamic would exert additional downward pressure on Fannie Mae's LIP borrower share.

It is worth noting that the Fannie Mae market model projects that the proposed purchase benchmarks are above the anticipated market level. Fannie Mae performance is predicted to be above the benchmark because we generally buy a larger percentage of the housing goals eligible loans available. However, if Freddie Mac begins to compete to meet the new, higher benchmarks, then Fannie Mae may be unable to deliver future performance to maintain the same traditional margin above market levels. In short, there simply may not be enough lower-income loans in the market to allow both Enterprises to achieve their respective benchmarks.[7]

Low-Income Areas Housing Subgoal Revisions

The proposed benchmarks relating to the disaggregation of the LIA subgoal by minority census tracts subgoal and low-income census tracts subgoal appear to be achievable based on recent historical data. However, the same challenges regarding inventory availability and pricing, borrower demand, and consumer and lender preference for conventional execution and sale to Fannie Mae all apply. In addition, by disaggregating the factors in the existing subgoal, we no longer have the possibility that overperformance in one segment will compensate for underperformance in another segment, adding additional risk of inability to

[7] An example helps illustrate the dilemma. If we assume an estimate of 25% for both Enterprises' LIP share (approximate lower bound from Fannie Mae's LIP 2022 annual forecast), the Enterprises would collectively need to increase LIP loan acquisitions by 15% (approximately 89,000 loans) to meet the proposed 28% benchmark, assuming their non-LIP volumes remain constant. In this instance, the Enterprises would potentially be "competing away" LIP loans from one another and other market participants, most notably FHA (we estimate LIP volume in the non-Enterprise segments significantly exceeds the needed Enterprise LIP increases). Alternatively, the Enterprises could meet the 28% target if their non-LIP purchase acquisitions were reduced by 12% (approximately 221,000 loans) or some other intermediate combination of LIP increase and non-LIP decrease. When Enterprise non-LIP loan acquisitions decline, these loans would need to shift to non-Enterprise or government execution to be originated.

meet the benchmark level for a particular subgoal. Nevertheless, from a policy perspective, we agree with FHFA that this change – specifically and separately targeting loans for families living in minority and low-income census tracts – will result in better and more transparent reporting on both of these categories.

The proposal also seeks to modify the definition of a "designated disaster area" that contributes to the broader LIA by no longer relying on a declaration by the Federal Emergency Management Agency ("FEMA") of areas eligible for individual assistance, and instead applying the narrower definition of only those areas where housing assistance payments have been authorized by FEMA. We understand the intent of this change is to focus disaster-related housing goal credit on discrete and localized events rather than broad-based conditions like the COVID-19 pandemic response. We agree with this revision.

Refinance Housing Goal Challenges

Unlike our cautious sense of being potentially positioned to meet the new purchase loan benchmarks, Fannie Mae has serious concerns over the proposed LIR benchmark, which represents a significant increase over the current level. Observed volatility in the LIR share of market production makes it difficult to ascertain the likelihood of our ability to meet the benchmark, particularly in 2023 and 2024. In this regard, Fannie Mae concurs with FHFA's observation in the Proposed Rule: "The unpredictability of future interest rates and refinancing volumes…result[s] in greater volatility in the low-income shares for refinancing mortgages than what is typical for the home purchase mortgage market."[8]

Refinance production is driven by borrowers' decisions of how they weigh the cost savings of lowering their monthly mortgage payment versus the amount of closing costs required to refinance. This is a function of the amount of the interest rate reduction, the total of closing costs relative to the mortgage balance, and the borrowers' estimate of how long they will remain in their home, among other factors. Low-income borrowers tend to have generally lower loan balances. Because a portion of closing costs are fixed costs, it typically requires a larger reduction in interest rates in order for it to make economic sense for lower-balance loans to refinance. Fannie Mae does not control the majority of closing costs, which are set by the loan originators and other third parties. During the next three years, Fannie Mae will be working to identify more opportunities to reduce or eliminate certain closing costs for lower-income borrowers.

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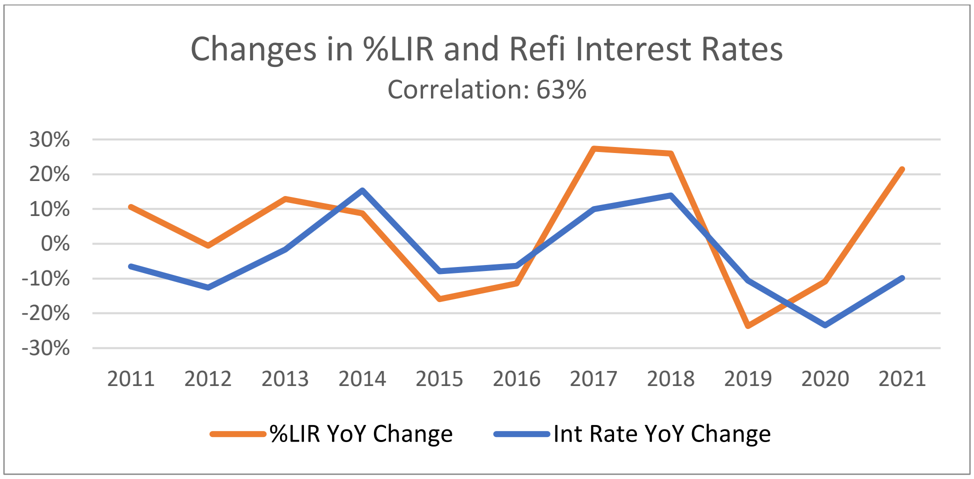
8 2022-2024 Enterprise Housing Goals, 86 Fed. Reg. 47398, 47410 (August 25, 2021).

Despite our efforts to encourage lower income borrowers to refinance, some historical context for both Enterprises over the past ten years regarding this goal illustrates why Fannie Mae is concerned over the refinance benchmark in the Proposed Rule. As the FHFA data below[9] shows, the actual market level has been very volatile and, in nine of ten years, below the level of the newly proposed benchmark.

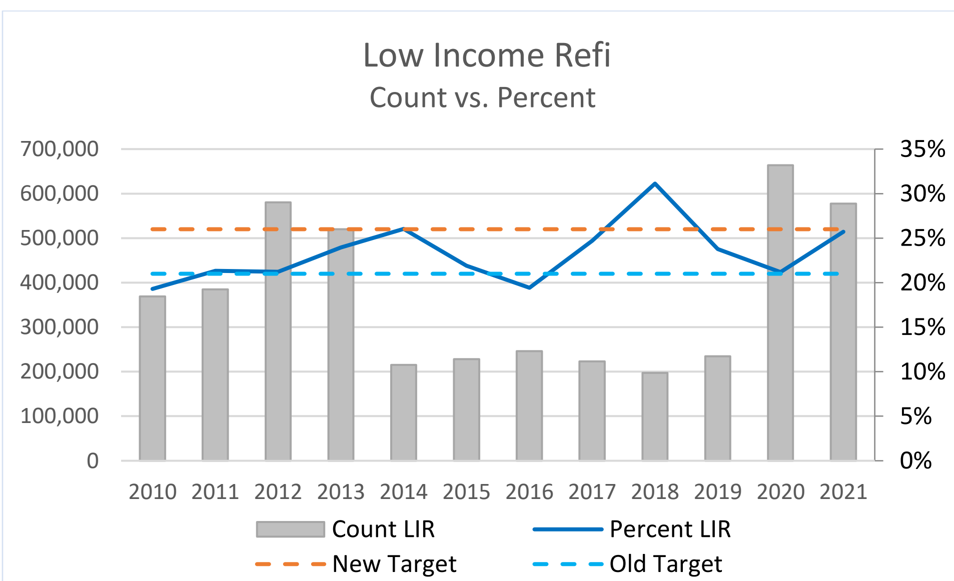
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Low-Income Borrower Refinance Share										
Benchmark	21%	21%	20%	20%	20%	21%	21%	21%	21%	21%
Actual Market	20.20%	21.50%	22.30%	24.30%	25.00%	22.50%	19.80%	25.40%	30.7%	24%
Fannie Mae Performance	20.90%	23.10%	21.80%	24.30%	26.50%	22.10%	19.50%	24.80%	31.2%	23.8%
Freddie Mac Performance	22.00%	23.40%	22.40%	24.10%	26.40%	22.80%	21.00%	24.8%	27.3%	22.4%

The relatively greater incentive that higher-income borrowers have to refinance means that these borrowers apply for and close refinances rapidly when interest rates drop, leading to an increase in the denominator used to assess our performance under this goal. The following chart illustrates how changes in LIR share track with prevailing interest rates.

[9] https://www.fhfa.gov/PolicyProgramsResearch/Programs/AffordableHousing/Pages/Fannie-Mae-and-Freddie-Mac-Housing-Goals-Performance.aspx



Given the strong economic incentives at play, depending on the timing of the cycle, this phenomenon can create significant downward pressure on the low-income refinance percentage, which may impact benchmark achievement in a particular year. This is also seen in the lack of correlation between the low-income refinance share and the volume of low-income borrowers actually helped as reflected in the following chart:



In addition, future refinance volume may stall as homeowners who have taken advantage of the prevailing historically low interest rates will have less of a refinance incentive, a response that may be more pronounced for lower income borrowers due to their low loan balances. Fannie Mae believes the 5% increase for this goal over the current benchmark may create incentives in the industry to produce refinances that do not benefit the borrower, and in fact extend the term of their debt while also reducing their equity accrual and having them incur duplicative transaction costs with each refinance. That said, Fannie Mae is sensitive to the needs of lower income borrowers to reduce their home ownership expenses, and recently announced RefiNow, a new refinance product geared specifically to existing Fannie Mae low-income borrowers, to provide opportunities for these borrowers to lower their monthly payment and take advantage of low interest rates before they increase while also ensuring a borrower benefit is realized through the refinance.

We acknowledge that the retrospective market share method of meeting single-family goals and subgoals means that an Enterprise can meet them even if it does not achieve the corresponding benchmark level. However, the market share alternative is, by definition, unavailable until after the year ends. Thus, during the year being measured, the aspirationally-high benchmark means the Enterprises would each be pressured to continually increase the loan count of low-income refinance borrowers. This may not be in the best interests of low-income homeowners. See Appendix, Figure 11 for a hypothetical illustration of the more limited prospects for borrower benefit for lower-balance refinances relative to higher-balance loans.

IV. Multifamily Housing Goals Comments

The Proposed Rule would raise the multifamily goals and subgoals for 2022, 2023, and 2024 as follows:

- **Low-income ("LI") goal**. From 315,000 to 415,000 dwelling units affordable to families with incomes no greater than 80% of area median income ("AMI") in multifamily properties financed by mortgages purchased by an Enterprise;
- **Very low-income ("VLI") subgoal.** From 60,000 to 88,000 dwelling units affordable to families with incomes no greater than 50% of AMI in multifamily properties financed by mortgages purchased by an Enterprise; and
- **Small ("5-50") low-income subgoal.** From 10,000 to 23,000 dwelling units affordable to families with incomes no greater than 80% of AMI in small multifamily properties (5-50 units) financed by mortgages purchased by an Enterprise.

Fannie Mae remains committed to serving every market, every day, to help assure affordable housing to renters nationwide. Although current market trends and competition are making housing less affordable over time, we believe that the LI goal and VLI subgoal, while quite challenging, are attainable if the current scorecard volume cap is maintained or increased from the announced $78 billion level for 2022 and in subsequent years. FHFA correctly notes that the proposed 5-50 subgoal represents a significant increase over prior years, but nonetheless suggests that the subgoal is achievable based on past performance. While we agree that past performance may be a good indicator, we believe that, in this instance, Fannie Mae's past performance indicates that the 5-50 subgoal as proposed exceeds a reasonable market level for Fannie Mae activity in that segment and risks displacing other sources of liquidity available to 5-50 borrowers. A more modest increase over the current 5-50 subgoal level that is aspirational yet more consistent with our historical 5-50 unit activity would provide significant assistance to the 5-50 unit low-income market and, consistent with other policy objectives, would be less likely to displace other sources of private capital in the robust and liquid 5-50 market.

Multifamily – Market Factors

FHFA rightly notes that market trends continue to impede the availability of affordable units for renters nationwide. Low vacancy levels for less expensive rental units, and slow construction of new affordable units, means that the pool of units eligible to meet the increased housing goals is largely stagnant. FHFA notes further that, before finalizing the LI goal and VLI subgoal, FHFA would seek to review additional information about the multifamily mortgage market or other relevant factors that could inform the goal-setting. In this spirit, we are sharing with you additional information based upon Fannie Mae's market analysis and observations:

- *Stagnant affordable housing stock and increasing rents are placing pressure on rental housing affordability.* There has been little change in the supply of affordable multifamily rental units over the past few years, primarily because it is difficult to build new units without local subsidies or federal assistance to keep the rents affordable. See Appendix, Table A. Vacancies for Class C apartment units – the most affordable units available in a market – hovered around 5% since the end of 2015 and increased just 30 basis points during 2020, ending the year at an estimated 5.3%.[10] In addition, properties assisted by federal Low-Income Housing Tax Credits had an even lower vacancy rate at just 2.6% in recent years, according to estimates from Moody's Analytics REIS.

[10] Direct data on affordability of units is generally not available, so Class C and LIHTC units have been used as a proxy.

Among other factors, continued demand for multifamily rentals has made older Class A and B units more attractive to investors as value-add projects, preventing them from naturally filtering down to Class C. As a result of low vacancies and these other trends, estimated multifamily effective rent growth in 2021 has reached unsustainable levels, peaking at nearly 14% this year, according to CoStar. Projected effective rent growth is estimated by CoStar to remain far above the historic norm in 2022, at 5.8%, and at 4.2% in 2023. The anticipated increases in effective rents across the multifamily sector are on track to well exceed wage growth in 2021 and 2022, placing more pressure on the supply of affordable units over the next few years.

- *Investors that reduced their participation in the market in 2020 are returning, increasing competition for loans financing LI, VLI and 5-50 unit properties.* Fannie Mae's 2020 acquisition activity was not reflective of a normal originations market and should not be used to predict future volumes. Indeed, while Fannie Mae acquired $76 billion in new loans in 2020 and financed 441,773 LI units, 95,416 VLI units, and 21,797 5-50 units, multifamily originations across the market are estimated to have declined year-over-year from $364 billion in 2019 to $359.7 billion in 2020. See Appendix, Figure B. Many traditional multifamily lending market participants slowed their pace of lending activity in 2020 and, in particular, appear to have pulled back on 5-50 unit properties, which are typically more credit sensitive than other multifamily property types.[11] In 2021, other investors have re-entered the market, increasing competition for loans financing properties with affordable and 5-50 units and impacting our ability to meet the proposed goals. According to the Mortgage Bankers Association (MBA), total multifamily lending is projected to increase from $359.7 billion in 2020 to over $400 billion in 2021, while Fannie Mae's 2021 acquisitions are limited to $70 billion by the multifamily scorecard volume cap. See Appendix, Table B, Figure C.

Multifamily – Feasibility

Fannie Mae is committed to meeting the goals set by FHFA in the final rule, and we believe that the goals will be sufficiently challenging, yet attainable, if: (1) for the LI goal and VLI subgoal, the recently-announced $78 billion scorecard volume cap for 2022 is maintained or increased in subsequent years, and (2) for the 5-50 subgoal, the proposed increase over the current

[11] Despite the 5-50 subgoal being set at only 10,000 units in 2020, Fannie Mae nonetheless increased its acquisition of 5-50 loans from 14,000 units to over 21,000 units to meet market demand at a time when other sources of liquidity retreated.

benchmark level (from 10,000 units to 23,000 units) is reduced to a more modest increase that is challenging, but consistent with past performance. For all of the goals, increases in our risk limits approved by our Board and FHFA will need to be considered to accommodate the changes, especially for the 5-50 subgoal.

In addition to challenging market conditions, we believe that competing regulatory requirements and safety and soundness considerations while Fannie Mae remains in a severely undercapitalized state, will be critical factors in Fannie Mae's ability to achieve the proposed multifamily housing goals. Highlighted below are factors that we hope FHFA will consider in connection with our ability to meet the proposed goals:

- *Fannie Mae's ability to meet the proposed LI goal and VLI subgoal will be significantly impacted by the scorecard volume cap mandated by FHFA and risk limits approved by FHFA.* Achieving the proposed LI goal and VLI subgoal will be challenging, yet attainable, under the $78 billion scorecard volume cap announced for 2022. Loans with higher levels of affordable units often have characteristics that have been assigned higher capital rates under the ERCF, increasing the quantum of risk that Fannie Mae is deemed to assume even if all other factors otherwise remain constant.[12] Our analysis shows that a multifamily volume cap of $78 billion should be challenging yet sufficient for Fannie Mae to be appropriately positioned, given prevailing market conditions and changes as needed to ERCF-based risk parameters, to meet the proposed LI goal and VLI subgoal.[13] An equal or higher scorecard volume cap will also be necessary in subsequent years.

  The higher risk assigned to loans that have high levels of housing goals units in our acquisitions and overall book of business under the ERCF[14] also means that the goals in the Proposed Rule would be challenging under the risk limits set by our Board and

[12] This includes acquisitions of loans on subsidized affordable properties, which have substantially higher capital rates under ERCF than they did under the former Conservator Capital Framework (CCF) due to the elimination of the 0.60x multiplier that applied to subsidized affordable loans under the CCF.

[13] Based on the MBA's estimate of the total multifamily lending market for 2022, this would represent approximately 18.5% of the overall market, but could represent a greater share in future years.

[14] This is particularly true for loans that meet the 5-50 subgoal, as those loans typically have a higher concentration of factors that result in higher capital rates under the ERCF. For example, loans with an original unpaid principal balance (UPB) of less than $7 million are assigned a capital multiplier >1x.

approved by FHFA for 2021. If we were to pursue affordable loan acquisitions at the level required to achieve the proposed goals without a commensurate increase in the risk limits in 2022 and beyond, we believe that those acquisitions would threaten and likely breach those risk limits, which are an important component of our safety and soundness strategy.

- *Past Performance indicates that a more modest increase in the 5-50 subgoal will be challenging, yet attainable, without affecting safety and soundness or disrupting the otherwise healthy mortgage finance market for 5-50 unit properties.* Even with a higher volume cap, the 5-50 subgoal will be difficult to achieve without substantial changes in business mix, deal flow, and underwriting standards (risk tolerance) on loans for properties with 5-50 units. While 5-50 unit properties have historically offered a high percentage of affordable units, we have generally seen declining levels of affordability in these properties in recent years and we expect this trend to continue.[15] There is an active, robust, and liquid market for these loans, and, in our estimation, Fannie Mae would need to take market share from other liquidity providers to meet the proposed 5-50 subgoal, which would run counter to our mission to support and respond appropriately to the private market, rather than supplant it.

  Based on current trends, Fannie Mae would need to increase our acquisition of loans that finance properties with 5-50 units by over 60%, assuming a similar level of affordability of these properties from 2021 levels, to achieve the benchmark level in the Proposed Rule. While Fannie Mae financed over 21,000 units in 5-50 properties in 2020, it was based on a higher volume of overall production ($76 billion for Fannie Mae in 2020 versus the existing 2021 $70 billion volume cap), and higher levels of affordability in 5-50 unit properties than we anticipate in future periods, and a temporary retreat by private capital that has now returned. Excluding 2020, Fannie Mae has financed approximately 14,000 5-50 units on average per year over the prior three years.[16] We would not expect Fannie Mae to have significantly higher acquisition activity for 5-50 units in future years based on our current underwriting standards and risk tolerance and respectfully request that FHFA consider a 5-50 subgoal closer to past performance.

[15] According to the Census Bureau's American Community Survey, the share of renters earning at or below 80% AMI in 5-50 unit properties and who are cost-burdened increased from 68% to 75% between 2005 and 2014, and has hovered around 75% from 2014 through 2019, the latest year that data is available. This is nearly identical to the broader multifamily market.

[16] We are currently on pace for a similar level in 2021.

Multifamily – Credit Perspective on 5-50 Unit Properties

In addition to the broader considerations affecting the proposed goals, there are some unique credit-related perspectives with respect to the 5-50 unit market segment that may bear on FHFA's determination of the feasibility and potential market impact of more than doubling the goal. Accordingly, we request that FHFA consider a more modest increase in the 5-50 subgoal that will be sufficiently challenging without compromising safety and soundness based on the following:

- *Securitizing loans reduces flexibility and Fannie Mae's ability to compete for loans on 5-50 unit properties.* Due to strict retained portfolio limits, Fannie Mae relies on securitizing almost all loans acquired into Fannie Mae guaranteed mortgage-backed securities ("MBS"), which are sold to investors, to provide liquidity to the multifamily mortgage market. Fannie Mae must offer MBS that are broadly acceptable to investors – typically a ten-year, fixed-rate non-recourse loan with standard underwriting and prepayment terms. Without that consistency, multifamily loans are difficult to securitize, and multifamily MBS are unlikely to attract investors. This presents challenges for increasing our share of the 5-50 unit market, where both 5-50 unit borrowers and the commercial banks who compete with us for their loans favor shorter term loan products with prepayment terms that are not traditionally permitted in MBS deals, such as declining prepayment penalties. Small loans have also experienced significantly higher historical credit losses compared to other loan types, even with Fannie Mae's existing underwriting standards. See Appendix, Table D. Maintaining the credit quality of our small loan book is necessary to attract MBS investors and is critically important to our success in providing liquidity to this segment of the market.

- *Fannie Mae would need to relax underwriting requirements for loans on 5-50 unit properties to meet the proposed subgoal.* Based on market experience, Fannie Mae has concluded that underwriting loans for 5-50 unit properties is fundamentally different than underwriting loans that finance conventional or larger properties. Essentially, because the margin for a 5-50 unit property's net operating income to cover debt service is much thinner, Fannie Mae must underwrite both the property and the creditworthiness of the borrower.[17] Regional and community banks, on the other hand,

[17] The 5-50 unit borrower is generally a small business owner, with a limited portfolio of multifamily real estate, who operates at the local or regional level and may not have the leverage or resources of a larger owner/operator in the commercial real estate market. And while the credit for larger multifamily

often have broad banking relationships with their small multifamily borrowers, and as such, make multifamily property loans on the basis of the broader banking relationship, not just the rental property.

In order to meet the substantially higher subgoal for 5-50 unit properties as proposed, Fannie Mae would have to relax its current underwriting approach and standards to compete with other established sources of capital that have long served the 5-50 unit market (see Appendix, Table C.), and which are currently active, robust and liquid. Relaxing our underwriting standards would also increase the already-elevated risk assigned to these loans under the ERCF and put further pressure on our risk limits,[18] and possibly contribute to an unintended decline in underwriting standards among all market competitors.

- *Purchasing seasoned loans to meet the 5-50 subgoal is market dependent, increases risk, and does not expand the market for affordable housing.* Moreover, Fannie Mae could endeavor to fulfill the housing goals requirements for 5-50 unit properties by purchasing pools of seasoned (i.e., more than one year since origination) 5-50 unit loans from financial institutions that originate and hold these loans in their portfolios. Fannie Mae has focused on seasoned pool activity in years when we have needed additional volume to achieve housing goals, but our ability to leverage pool loan purchases has fluctuated depending on the populations of available loans. But there are risks associated with these transactions, including that seasoned loans are not underwritten or serviced to Fannie Mae's small loan standards, and often have loan structures that

loans is driven almost exclusively by cash flow, Fannie Mae has observed, through analysis of its own small loan delinquencies, that a small loan borrower's ability to repay is driven by the strength of the property cash flow, plus the borrower's own financial strength and repayment history, much like a single-family loan. This is attributable to the tighter cash flow margin in a small multifamily property, where even one vacancy can jeopardize net income and its sufficiency to cover the mortgage. In that case, the personal net worth and liquidity of the borrower becomes a critical source for debt repayment. To mitigate this risk, Fannie Mae's underwriting standards for 5-50 unit properties require a minimum 1.25x debt service coverage ratio ("DSCR"), while competitors may allow DSCR as low as 1.20x (refer to underwriting comparison chart in the Appendix for further details).

[18] Fannie Mae may be able to mitigate this additional risk by changing its acquisition and securitization strategy for these loans (e.g., setting up a conduit for 5-50 loans), but that would require significant additional resources and likely result in additional competition between the Enterprises for the same loans.

are not liquid or easily securitized. This may help Fannie Mae meet the 5-50 subgoal, but would not expand the market for affordable housing.

V. Suggested Modifications to Current Rule

In comment letters submitted during prior housing goals rulemakings, Fannie Mae suggested that certain modifications be made to sections 1282.16 and 1282.21. While FHFA declined to make these modifications as part of the prior rulemakings, Fannie Mae views the arguments in support of these modifications as continuing to have merit, and therefore renews the following requests.

Manufactured Housing Communities

Manufactured housing continues to be a significant source of affordable housing for both owners and renters, which Congress recognized by making it one of the three prioritized underserved markets for which the Enterprises have a Duty to Serve.[19] Most recently, the White House called in September 2021 for an expansion of the supply of manufactured housing as a part of the Administration's strategy to add 100,000 additional affordable homes for homeowners and renters over the next three years, with an emphasis on the lower and middle segments of the market.[20] It typically costs $675 less per month to own, and $350 less per month to rent, a manufactured home versus an apartment of comparable size, making the manufactured housing community ("MHC") an effective way to provide affordable housing.

In Fannie Mae's 2017 letter regarding the then-proposed housing goals rule, Fannie Mae noted how in the prior 2015-2017 rulemaking FHFA, the Enterprises and others weighed whether a blanket loan on an MHC should be considered for housing goals purposes. Responding to FHFA's 2015 statement that a lack of data regarding affordability and numbers of bedroom units compelled FHFA to exclude MHC financing from housing goals, Fannie Mae responded that it is able to obtain bedroom and total rent information for MHC units, as it is readily

[19] 12 U.S.C. §4565(a)(1)(A).

[20] *See* https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/01/fact-sheet-biden-harris-administration-announces-immediate-steps-to-increase-affordable-housing-supply/

available where the borrowing entity owns both the land and the manufactured housing.[21] This remains so today.

Accordingly, in light of the functional equivalency of such pad/unit rentals in MHC with brick-and-mortar projects, Fannie Mae proposes that the current section 1282.16(c)(5) be amended by revising subparagraph (i) and adding new subparagraphs (iv) and (v) to read as follows (modifications in bold italics):

> (5) Cooperative housing, condominiums, ***and manufactured housing communities***.
>
> (i) The purchase of a mortgage on a cooperative housing unit ("a share loan") or a mortgage on a condominium unit, **or a mortgage on manufactured housing community** shall be treated as a mortgage purchase for purposes of the housing goals ***as provided under this paragraph***…
>
> * * *
>
> ***(iv) The purchase of a blanket mortgage on a manufactured housing community shall be counted in the same manner as a mortgage purchase of a multifamily rental property on non-owner-occupied units where rent and bedroom information is available to determine affordability.***
> ***(v) Where an Enterprise purchases both a mortgage on a manufactured housing community and mortgages or security interests on individual dwelling units in the same community, both the mortgage on the manufactured housing community and the mortgages or security interests on the individual dwelling units shall be treated as mortgage purchases for purposes of the housing goals***

If this or a similar modification is made in the final housing goals rule, we also suggest that the definition of "manufactured housing community" in 12 CFR § 1282.1 be revised to remove the clause "for purposes of subpart C of this part" so that it applies to all of 12 CFR Part 1282, and be further modified as follows (modifications in bold italics):

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[21] Fannie Mae has created a program to provide permanent MHC financing for both land and manufactured housing units when large numbers of those units are owned by the MHC operator, and Fannie Mae and may seek housing goals credit for based on the number of such dwelling units in the future.

> *Manufactured Housing Community* means a tract of land under unified ownership and developed for the purposes of providing individual rental spaces for the placement of manufactured homes for residential purposes within its boundaries ***and includes residential amenities, utility services, landscaping, roads, and other infrastructure***.

Subordinate Multifamily Mortgages

Prior to the 2011-2012 housing goals rule, subordinate mortgages were eligible for housing goals credit for both single-family and multifamily purposes. With the 2011-2012 rule, such subordinate loans were made ineligible. FHFA's reasoning for excluding multifamily subordinate mortgages was that it was "not clear whether all subordinate lien multifamily mortgages are for the purpose of financing dwelling units affordable to low-income families."[22] At the same time, FHFA acknowledged the views of both Enterprises and of other commenters who argued that indebtedness secured by subordinate mortgages might offer a more cost-effective path to rehabilitate or otherwise upgrade units or common areas in multifamily housing than refinancing of all its existing indebtedness. Rather than categorically exclude all subordinate multifamily mortgages from eligibility for housing goals purposes, Fannie Mae recommends that section 1282.16(b)(10) be revised to permit certain subordinate mortgages as follows (modifications in bold italics):

> (10) Purchases of subordinate lien mortgages (second mortgages) ***except where the principal purpose of a multifamily subordinate lien mortgage is to finance repairs, upgrades or other rehabilitation that benefits the residents.***

Certificates of Occupancy for Multifamily Units

Fannie Mae's 2017 comment letter noted several instances in which large numbers of otherwise-qualifying multifamily units could not be counted for housing goals purposes because certificates of occupancy had not been issued for *all* units in the related project. As a more recent example, in 2018, a 312-unit property in Durham, North Carolina with a regulatory agreement that restricts 55% of units to 60% AMI was excluded from receiving housing goals credit because seven of these units had not received a certificate of occupancy after rehabilitation following a fire. Fannie Mae does not dispute the validity of the rationale underlying the requirement that a unit should have a certificate of occupancy to be included

[22] 2010-2011 Enterprise Housing Goals, 75 Fed. Reg. 55892, 55924 (September 14, 2010).

for housing goals consideration, but we continue to believe that this "all or nothing" approach should be revised to recognize housing goals credit for those units that have a certificate of occupancy irrespective of some other units being unavailable for occupancy (which available units would not be counted for housing goals credit). A unit without a certificate of occupancy often is undergoing rehabilitation, which is a process that should encouraged. Moreover, the indebtedness associated with the Fannie Mae loan is often the source of funding for the rehabilitation, explaining why the work has not been completed before loan purchase.

Accordingly, Fannie Mae suggests that the current approach for treatment of unoccupied units being used as a model or rental office[23] be incorporated into a modified section 1282.16(b)(12) as follows (modifications in bold italics):

> (12) Purchases of mortgages where the property, or any units within the property, have not been approved for occupancy ***unless the Enterprise has determined that the number of such units is reasonable and minimal considering the size of the multifamily property.***

Loan Modifications

Section 1282.16(c)(10) of the existing regulation provides that certain loan modifications may be counted in the same manner as the purchase of a refinancing mortgage for housing goals purposes. However, the regulation refers to the Making Home Affordable ("MHA") program, which expired in 2017. The Enterprises have had and will continue to have additional loan modification programs, subject to FHFA oversight, outside the MHA framework. Accordingly, we recommend that the section be updated to read as follows (modifications in bold italics):

> (10) *Loan modifications*. An Enterprise's permanent modification, ***in accordance with a loan modification program implemented by the Enterprise***, of a loan that is held in the Enterprise's portfolio or that is in a pool backing a security guaranteed by the Enterprise, shall be treated as a mortgage purchase for purposes of the housing goals. Each such permanent loan modification shall be counted in the same manner as a purchase of a refinancing mortgage.

[23] 12 C.F.R. §1282.15(d)(3).

Housing Plans

There is near universal acceptance that this country is facing a severe shortage of affordable housing, whether for purchase or rental. This was true before the COVID-19 crisis and remains worse in its wake. Supply constraints affecting housing are particularly acute for very low- and low-income families. As noted above, in September 2021, the Administration set out an ambitious agenda to add nearly 100,000 additional affordable homes for homeowners and renters over the next three years.

This reality illustrates the challenges of setting benchmarks for Enterprise performance on a go-forward basis during the next three years. While Fannie Mae will work aggressively to surpass these benchmarks, we recognize that unforeseen circumstances and volatile markets may hinder those efforts, which are, as well, dependent upon the co-operation of our lender partners.

Under the current regulation, an Enterprise's achievement of its housing goals is assessed on a pass-fail basis. If an Enterprise failed to achieve a goal that was feasible to achieve, then under the statute, the Director of FHFA may require it to submit a housing plan for the Director's approval. [24] In light of the factors discussed above, Fannie Mae believes that the determination of whether a housing plan should be imposed should also consider the qualitative efforts of the Enterprise to achieve the goals in addition to its quantitative accomplishments. We regularly report on such efforts to FHFA. Accordingly, we suggest that current section 1282.21(a) be revised to read as follows (modifications are in bold italics):

> (a) *General*. If the Director determines that an Enterprise has failed, or there is a substantial probably that an Enterprise will fail, to meet any housing goal and that the achievement of the housing goal was or is feasible, the Director may require the Enterprise to submit a housing plan for approval by the Director. ***In determining whether to require a housing plan, the Director may consider the qualitative efforts of an Enterprise to achieve any housing goal.***

VI. Aligning Standards for Housing Goals, Duty to Serve, and the Community Reinvestment Act

In its September 2021 request for input regarding its new Equitable Housing Finance Plan initiative, FHFA predicated the initiative upon, among other authorities, the Federal Housing

[24] 12 U.S.C. § 4566(c)(1).

Finance Enterprises Financial Safety and Soundness Act of 1992, which established housing goals[25] and also mandates the Enterprises "to take affirmative steps to assist primary lenders to make housing credit available in areas with concentrations of low-income and minority families."[26] It is noteworthy that in this same section of that Act, Congress also required the Enterprises to "take affirmative steps to …assist insured depository institutions to meet their obligations under the Community Reinvestment Act of 1977."[27] The CRA remains an important tool for remedying the legacies of redlining and other vestiges of discrimination that limits the availability of credit in underserved communities.

With the subsequent adoption of the Housing and Recovery Act of 2008 ("HERA")[28], housing goals were specifically revised to bring them into better alignment with the CRA. The legislative history in the House of Representatives indicates that "[t]he affordable housing goals are revised…to better align the income categories with the Community Reinvestment Act, in order to augment financial institutions' activities in serving low- and very-low income communities and families."[29]

Fannie Mae has long worked with banks and other insured depositories to provide both liquidity and CRA-targeted MBS in aid of their CRA obligations. However, despite the revisions made in HERA, the definitional standards and data references used under the CRA regulations and the Housing Goals/Duty to Serve regulations are inconsistent and misaligned. While both CRA and Housing Goals/Duty to Serve rely on income cut-offs relative to area median income, inconsistencies between the respective regulations hamper alignment between banks and the Enterprises in respect of how individual single-family loans are treated under both regulatory schemes. Better alignment will aid both the Enterprises and regulated banks.

In 1995, the regulators responsible for the CRA – the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("Federal Reserve") and the

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[25] 12 U.S.C. §4561.

[26] 12 U.S.C. §4565(b)(3)(A).

[27] 12 U.S.C. §4565(b)(3)(B).

[28] Pub. L. No. 110-289, 122 Stat. 2654 (2008).

[29] H.R. 110-142 (2007).

Federal Deposit Insurance Corporation (together, the "Prudential Regulators") – adopted common regulations to assure consistent treatment of banking entities irrespective of which of the Prudential Regulators oversaw their operations.[30] This aligned approach ended in 2020, when the OCC proposed and later finalized revised non-aligned CRA regulations[31] applicable only to national banks regulated by the OCC. Shortly thereafter, the Federal Reserve issued an advanced notice of proposed rulemaking ("ANPR")[32] regarding modernization of its implementation of the CRA that would differ from the OCC rule (no proposed rule has yet been published by the Federal Reserve relating to that ANPR). In September 2021, in a reversal of its position, the OCC issued a proposed rule[33] rescinding the June 2020 final rule, and proposing to replace it with rules largely aligned with the other Prudential Regulators' 1995 joint regulation. In short, the future of the next generation of regulations relating to the CRA is currently determined, creating an opportunity for FHFA and the Prudential Regulators to better align the CRA with housing goals and Duty to Serve. In light of the expressed congressional intent to foster such alignment, Fannie Mae encourages FHFA to engage in 2022 with the Prudential Regulators to discuss whether and how to bring greater alignment between these related regulatory programs with respect to their application to any given affordable-housing loan made by a depository lender that might be sold to either Enterprise.

[30] See, e.g., 12 C.F.R. §345.11.

[31] 85 Fed. Reg. 34734 (June 5, 2020), https://www.govinfo.gov/content/pkg/FR-2020-06-05/pdf/2020-11220.pdf.

[32] 85 Fed. Reg. 66410 (Oct. 19, 2020), https://www.govinfo.gov/content/pkg/FR-2020-10-19/pdf/2020-21227.pdf.

[33] 86 Fed. Reg. 52026 (Sept. 17, 2021), https://www.govinfo.gov/content/pkg/FR-2021-09-17/pdf/2021-19738.pdf.

* * * *

We appreciate the opportunity to comment on the Proposed Rule. If you have questions regarding the matters addressed in this letter, please feel free to contact the undersigned at 202-752-1234.

Sincerely,

Hugh R. Frater
Chief Executive Officer

Jeffery Hayward
Chief Administrative Officer

Appendix

Single-Family Model Comments

The proposed benchmarks were established using updated model predictions ("FHFA Model").[i] We use our own internal model (hereafter "Fannie Mae model" or "Fannie Mae market model") to provide context around the FHFA model predictions.[ii] While the Fannie Mae model produces similar market-level forecasts across the goals for 2022 through 2024, the Fannie Mae model implies smaller market forecasts for the LIP and LIA goals and also a higher degree of uncertainty than suggested by the FHFA estimates (Appendix, Tables 1–4).[iii] In particular, the Fannie Mae model forecasts that the market performance will fall short of the LIP benchmark in 2022, 2023 and 2024 and the VLIP benchmark in 2022. For the LIR goal, the Fannie Mae market model suggests higher estimates than the proposed benchmark for the next three years but with a wide range of uncertainty.

While the Fannie Mae model suggests the overall market will fall short in some cases of FHFA's proposed benchmarks, the baseline forecast of Fannie Mae's own goals performance (which is a separate forecast model from the Fannie Mae market model) estimates Fannie Mae will meet all the proposed single-family benchmarks in 2022 to 2024. Reflecting the underlying uncertainty, these estimates correspondingly also imply a relatively high likelihood of not reaching the proposed benchmarks. The LIP goal has the highest likelihood of not meeting the proposed benchmark in 2022, with a point estimate of 29.9% (versus proposed benchmark of 28%) and a 21.1% chance of not meeting the benchmark. We forecast the VLIP goal at 7.9% for 2022 with the probability of not meeting the benchmark at 17.2% while the LIR model projects 29.7% with a 11.3% likelihood of missing its proposed benchmark for 2022. Our forecast for LIA is not directly applicable since FHFA has split the LIA subgoal into two mutually exclusive groups. For the purpose of this comment letter, we are not incorporating the LIA definition change and are reporting the LIA subgoal with the older definition, as in FHFA's 2022-2024 paper to provide some additional context for this segment of the housing goals market for 2022 to 2024.

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[i] FHFA substantially updated its models as part of the previous housing goal benchmark rulemaking in 2017. For the current proposed rulemaking, FHFA has largely relied on the same models with refreshed parameter estimates. These models are discussed at more length in the FHFA research paper *The Size of the Affordable Mortgage Market: 2022-2024 Enterprise Single-family Housing Goals* which was published at the same time as the Proposed Rule (*The Size of the Affordable Mortgage Market)*.

[ii] We have compared the FHFA model used for 2018-2020 housing goals rulemaking to the 2022-2024 version and note that FHFA has not changed any model specification for LIP, VLIP or LIA but does appear to have changed the lag structure of the refinance application index of the LIR model where they have introduced the variable with a two-period lead (t+2) rather than a one-period lag (t-1). We have used t-2 in our replication efforts.

[iii] We also include alternative estimates of the LIAS goal in our analysis and compare them against the estimates provided by FHFA.

One of the main drivers of the lower prediction of market purchase goals performance in the Fannie Mae model versus the FHFA model is the lower Fannie Mae model projection of the size of the single-family home sales market. In particular, the Fannie Mae's Economic & Strategic Research Group ("ESR") projects lower existing home sales than the Moody's forecast used in the FHFA model for the 2022–2024 period (Appendix, Figure 9), consistent with the view of ongoing supply constraints in the single-family housing market. As the home sale market grows, both models predict additional opportunities for low-income and very-low income buyers and thus higher market purchase housing goal performance. The Fannie Mae model projects the LIP share of the market for 2022 will be around 24%, approximately four percentage points below FHFA's proposed benchmark, while VLIP is projected to be around 7% of the market using the Fannie Mae model, the same as the proposed benchmark. The wider confidence intervals of the Fannie Mae model forecast versus the FHFA market forecasts for purchases illustrates the relative uncertainty underlying these forecasts. This uncertainty along with the risks that the FHFA model may overstate the size of the future housing market, suggests that there is a reasonable likelihood that the market could fall short of the FHFA purchase benchmarks over the 2022–2024 period.

The Fannie Mae model reveals a higher forecast for market LIR performance versus the FHFA model, however with a much wider range of uncertainty for the Fannie Mae model (Appendix, Table 3). This higher Fannie Mae model baseline market forecast is consistent with the higher projected Fannie Mae housing goal performance, which is based on observed Fannie Mae goal performance through 2020, adding an extra year to what is available for the market model. In order to get more similar results for the Fannie Mae performance and market performance models (consistent with the observed history of these two series), we investigated a number of alternative formulations of the Fannie Mae market model. In the end, we have included a proxy for share of government insured mortgages (also used in the FHFA model) in the model specification, even though its coefficient was not significant.[i]

We do this because without it we believe the Fannie Mae market model would underpredict 2020 and 2021 performance, where we have Fannie Mae performance to help infer a similar reasonable level for market performance. However, doing so is a deviation from our usual statistical methodology of including only significant coefficients and should therefore be noted as an added risk to the forecast. Once the government share proxy is removed, the Fannie Mae model results in a lower expected LIR forecast for 2020 and onward that ranges between 18% and 21%. As a last point, our analysis suggests that the FHFA model may be sensitive to the size of the refinance market (in level and share versus purchase) and to the interest rate incentive. In general, when rate incentives improve and refinance activity picks up, the share of lower income refinance borrowers typically declines. Thus, to the extent that interest rates are lower, or the refinance market is larger than forecasted, the LIR share could also fall short of model projections. Taken together, the uncertainty around inputs, the large statistical ranges of the Fannie Mae LIR model and the sensitivity of model projections to the inclusion of a statistically insignificant driver all suggest that there is a substantial risk that the LIR performance could fall well short of the FHFA model projections and the proposed targets.

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[i] We apply as a proxy for the government share of guaranteed mortgages the Ginnie Mae share of the overall market.

With respect to the LIA subgoal, the Fannie Mae model projections of market performance for the 2022 to 2024 are much lower than the FHFA model projections, with a higher degree of uncertainty around the Fannie Mae model estimates. This suggests some risk that the LIA market share may fall short of what the FHFA model indicates, with the caveat discussed in the body of the letter that under the Proposed Rule that the existing LIA subgoal has now been divided into two mutually exclusive subgoals.

In conclusion, Fannie Mae would like to call attention to certain issues regarding the FHFA model, and note the importance of taking into consideration the dislocation resulting from the COVID-19 pandemic.

- As discussed in Fannie Mae's comment letter to the proposed housing goals benchmarks for 2018–2020,[i] differences in forecasts can occur due to model specification as well as differences in model input forecasts. To account for differences in input variable forecasts across the FHFA and Fannie models, we have replicated the FHFA model estimation exercise using the same data sources for the forecasts as FHFA which are gathered from Moody's (referred to as "FHFA Replication Using Moody's Forecast model"). As an alternative model we use the same replicated FHFA model along with the Fannie Mae economic team's internal forecasts for input variables where available (referred to as the "FHFA Replication Using ESR's Forecast model"). This alternative provides insights into the impact of changing forecast data sources on housing goals forecasts. We are also providing housing goals market forecasts from the Fannie Mae model which we estimate using a reduced set of inputs used in the FHFA model, retaining in the model only those explanatory variables that are statistically significant.[ii] As discussed above, one key difference in the Moody's forecast and the Fannie Mae ESR forecast is in the size of the single-family sales market, with the larger Moody's forecast contributing to a larger expected purchase housing goal performance (LIP and VLIP) in the FHFA model. If binding supply constraints result in a lower sales volume, consistent with the Fannie Mae ESR forecast, this could result in lower market purchase goal performance than expected in the FHFA model.

- FHFA's model has not changed from the 2018-2020 housing goals rulemaking, with the most recent models including the same predictors even though some lost significance across the two estimation exercises. Many of the predictors included with coefficient estimates are not different from zero in a statistically significant manner. Noted in Fannie Mae's comment letter regarding the 2018-2020 goals, these insignificant predictors can have predictive power to influence model forecast that adversely impacts forecast

[i] Fannie Mae, Comment Letter on Proposed Rule on 2018-2020 Enterprise Affordable Housing Goals (Sept. 5, 2017), https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Comment-List.aspx?RuleID=601

[ii] The exception to keeping only variables in the model with a statistically significant prediction ability is for the LIR model, where we include our proxy for government share as a variable, even though it is not significant as discussed above.

precision. There are several instances where these variables are included even without statistical significance because they are the only variables that address FHFA's one of seven explanatory "factors" or "categories" (such as "underwriting standards", "supply side factors" and "demand side factors"). For example, "Senior Loan Officer Opinion Survey's percent of lenders reported tightening of underwriting" is included in all four goals' models even though it is only significant in the LIA model. In addition, when there is more than one predictor under a distinct category, the FHFA model includes not only the statistically significant predictors, but also the insignificant predictors of the same category. For instance, in the LIR model an insignificant "unemployment rate" is added along with three other predictors that were significant under the same "Expectation Factors and the Health of the Economy" category. This seems redundant and may result in unreliable or spurious forecasts of market performance.

- By their construction, both the Fannie Mae model and the FHFA model equally weight the past years, although the drivers of goals performance may have shifted over time. While we are not recommending adding factors to the FHFA model, market conditions have changed considerably, especially with the onset of the pandemic which has worsened housing supply constraints as rising housing construction costs have limited the increases in housing starts and inventory metrics of new and existing homes remain historically tight. This has resulted in rapid home price appreciation across market segments. We also note that home price appreciation since the end of the financial crisis has been much greater in the lower-price tiers that typically serve first-time and lower income homebuyers, consistent with comparatively tight supply relative to demand in this segment of the market. Efforts to stimulate demand and increase the share of lower income homeowners should fully understand the degree to which these policies actually increase the number of lower income buyers in homes versus further driving up home prices in the affordable segment or shifting affordable homebuyer mortgages from existing channels (e.g., FHA) to the Enterprises.

Tables and Figures

Below are a series of tables and charts comparing forecasts of market performance for the single-family housing goals using the Fannie Mae model and the FHFA model, as well as data relating to the multifamily market. Unless otherwise noted, all data are those of Fannie Mae. Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Economic & Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice.

Tables

Table 1: Yearly Average Low-Income Purchase Performance & Forecasts*						
Year	Fannie Mae Market Model**	FHFA Replication Using Moody's Forecast	FHFA Replication Using ESR's Forecast	Fannie Mae Performance and Forecast***	Market Performance and Forecast from FHFA (2021) Paper	FHFA Enterprise Goal
2010	26.9%	27.0%	27.1%	25.1%	27.2%	27.0%
2011	26.4%	26.3%	26.2%	25.8%	26.5%	27.0%
2012	26.7%	26.6%	26.6%	25.6%	26.6%	23.0%
2013	24.1%	23.9%	23.9%	23.8%	24.0%	23.0%
2014	22.8%	22.7%	22.7%	23.5%	22.8%	23.0%
2015	23.9%	23.7%	23.7%	23.5%	23.6%	24.0%
2016	23.1%	23.1%	23.1%	22.9%	22.9%	24.0%
2017	25.0%	24.6%	24.7%	25.5%	24.3%	24.0%
2018	26.2%	26.0%	26.0%	28.2%	25.5%	24.0%
2019	27.1%	27.1%	27.1%	27.8%	27.0%	24.0%
2020	26.7% (± 2.6)	31.7% (± 2.8)	31.0% (± 2.8)	29.0%	29.5% (± 2.3)	24.0%
2021	25.2% (± 4.7)	31.2% (± 4.7)	29.9% (± 4.8)	29.1% (± 1.0)	28.9% (± 4.0)	24.0%
2022	23.9% (± 6.1)	31.1% (± 6.1)	29.1% (± 6.2)	29.9% (± 4.6)	26.9% (± 5.1)	28.0%
2023	23.4% (± 7.2)	31.9% (± 7.2)	29.3% (± 7.3)	30.2% (± 6.4)	26.2% (± 6.1)	28.0%
2024	23.4% (± 8.2)	32.8% (± 8.1)	29.7% (± 8.3)	30.7% (± 7.8)	26.4% (± 6.9)	28.0%

* 95% Confidence bands displayed in parentheses.
** Market and Fannie Mae forecasts based off of latest monthly ESR Housing Goals Forecast (Aug. 2021)
*** Fannie Mae performance forecasts exclude influence of investor channel/bulk deals.

Table 2: Yearly Average Very Low-Income Purchase Performance & Forecasts*						
Year	Fannie Mae Market Model**	FHFA Replication Using Moody's Forecast	FHFA Replication Using ESR's Forecast	Fannie Mae Performance and Forecast***	Market Performance and Forecast from FHFA (2022) Paper	FHFA Enterprise Goal
2010	8.1%	8.1%	8.1%	7.2%	8.1%	8.0%
2011	8.0%	8.0%	8.0%	7.6%	8.0%	8.0%
2012	7.8%	7.8%	7.8%	7.3%	7.7%	7.0%
2013	6.3%	6.2%	6.2%	6.0%	6.3%	7.0%
2014	5.7%	5.6%	5.7%	5.7%	5.7%	7.0%
2015	6.0%	5.9%	5.9%	5.6%	5.8%	6.0%
2016	5.5%	5.5%	5.5%	5.2%	5.4%	6.0%
2017	6.2%	6.0%	6.0%	5.9%	5.9%	6.0%
2018	6.8%	6.7%	6.7%	6.7%	6.5%	6.0%
2019	6.9%	6.8%	6.8%	6.5%	6.7%	6.0%
2020	6.9% (± 1.0)	8.9% (± 1.0)	7.7% (± 1.1)	7.3%	8.2% (± 1.0)	6.0%
2021	6.6% (± 1.7)	8.3% (± 1.8)	7.3% (± 1.9)	7.5% (± 0.4)	7.6% (± 1.4)	6.0%
2022	6.9% (± 2.2)	8.1% (± 2.3)	7.0% (± 2.4)	7.9% (± 1.8)	6.8% (± 1.8)	7.0%
2023	7.0% (± 2.6)	8.3% (± 2.7)	6.9% (± 2.8)	7.9% (± 2.5)	6.6% (± 2.1)	7.0%
2024	7.1% (± 2.9)	8.5% (± 3.1)	7.0% (± 3.2)	7.9% (± 3.0)	6.6% (± 2.4)	7.0%

* 95% Confidence bands displayed in parentheses.
** Market and Fannie Mae forecasts based off of latest monthly ESR Housing Goals Forecast (Aug. 2021)
*** Fannie Mae performance forecasts exclude influence of investor channel/bulk deals.

Table 3: Yearly Average Low-Income Refinance Performance & Forecasts*						
Year	Fannie Mae Market Model**	FHFA Replication Using Moody's Forecast	FHFA Replication Using ESR's Forecast	Fannie Mae Performance and Forecast***	Market Performance and Forecast from FHFA (2021) Paper	FHFA Enterprise Goal
2010	20.1%	20.5%	20.3%	20.9%	20.2%	21.0%
2011	21.5%	21.5%	21.6%	23.0%	21.5%	21.0%
2012	22.2%	21.9%	21.9%	21.8%	22.3%	20.0%
2013	24.3%	24.6%	24.4%	24.3%	24.3%	20.0%
2014	25.2%	25.5%	25.6%	26.5%	25.0%	20.0%
2015	22.7%	22.4%	22.4%	22.1%	22.5%	21.0%
2016	20.0%	20.2%	20.1%	19.5%	19.8%	21.0%
2017	25.8%	25.3%	25.4%	24.8%	25.4%	21.0%
2018	30.4%	30.4%	30.3%	31.1%	30.7%	21.0%
2019	23.7%	23.6%	23.8%	23.8%	24.3%	21.0%
2020	20.3% (± 4.5)	22.6% (± 4.9)	22.1% (± 4.5)	21.2%	21.4% (± 3.2)	21.0%
2021	20.6% (± 7.3)	23.0% (± 7.8)	23.4% (± 7.3)	26.6% (± 0.7)	25.5% (± 4.7)	21.0%
2022	26.5% (± 9.3)	25.9% (± 9.9)	25.6% (± 9.2)	29.7% (± 5.6)	26.1% (± 6.0)	26.0%
2023	30.0% (± 10.9)	29.1% (± 11.6)	26.5% (± 10.8)	30.3% (± 8.2)	28.0% (± 7.1)	26.0%
2024	32.9% (± 12.3)	30.7% (± 13.1)	26.2% (± 12.2)	32.6% (± 10.2)	28.9% (± 7.9)	26.0%

* 95% Confidence bands displayed in parentheses.
** Market and Fannie Mae forecasts based off of latest monthly ESR Housing Goals Forecast (Aug. 2021)
*** Fannie Mae performance forecasts exclude influence of investor channel/bulk deals.

Table 4: Yearly Average Low-Income Areas Subgoal Performance & Forecasts*						
Year	Fannie Mae Market Model**	FHFA Replication Using Moody's Forecast	FHFA Replication Using ESR's Forecast	Fannie Mae Performance and Forecast***	Market Performance and Forecast from FHFA (2022) Paper	FHFA Enterprise Goal
2010	12.2%	12.3%	12.3%		12.1%	13.0%
2011	11.5%	11.4%	11.5%	15.4%	11.4%	13.0%
2012	13.7%	13.4%	13.4%	13.1%	13.6%	11.0%
2013	14.2%	14.1%	14.1%	14.0%	14.2%	11.0%
2014	15.1%	15.0%	15.0%	15.5%	15.0%	11.0%
2015	15.2%	15.1%	15.1%	15.6%	15.2%	14.0%
2016	16.0%	15.8%	15.8%	16.2%	15.9%	14.0%
2017	17.8%	17.6%	17.6%	18.3%	17.1%	14.0%
2018	18.8%	18.7%	18.7%	20.0%	18.0%	14.0%
2019	18.9%	18.8%	18.8%	19.5%	18.3%	14.0%
2020	15.6% (± 1.5)	17.5% (± 1.4)	18.0% (± 1.4)	18.34%	16.1% (± 1.2)	14.0%
2021	15.8% (± 2.7)	18.7% (± 2.4)	19.0% (± 2.3)	20.7% (± 0.5)	17.8% (± 1.7)	14.0%
2022	15.4% (± 3.5)	18.9% (± 3.1)	19.2% (± 3.0)	22.5% (± 2.7)	18.9% (± 2.2)	NA
2023	15.2% (± 4.1)	19.0% (± 3.7)	19.2% (± 3.5)	23.5% (± 3.9)	18.8% (± 2.6)	NA
2024	15.3% (± 4.6)	19.3% (± 4.2)	19.4 (± 3.9)	24.5% (± 4.8)	18.9% (± 3.0)	NA

* 95% Confidence bands displayed in parentheses.

** Market and Fannie Mae forecasts based off of latest monthly ESR Housing Goals Forecast (Aug. 2021)

*** Fannie Mae performance forecasts exclude influence of investor channel/bulk deals.

Table 5: FHFA Purchase Model Parameter Change in Significance

	LIP		VLIP		LIA	
	2018-2020	2022-2024	2018-2020	2022-2024	2018-2020	2022-2024
Debt to Income t-2	**	*	**			
Income Per Capital t-1	**		**			
30 FRM t-2					**	**
Unemployment Rate			*		***	***
Labor Force Participation Rate	***	*	***	*		**
Log (Consumer Confidence)	**	*	***	*	***	***
Consumer Price Index t -1	**	**	**	*		
Housing Affordability Index	**		***	***	*	
Sale of Existing Homes	***	***	***	***	*	
% lenders reported tightening in underwriting						**
Share of Gov or Enterprise of originations	***	***	***	***		*

Significance levels:
p<0.1,p<0.05,***p<0.01.*

Table 6: FHFA Refinance Model Parameters Change in Significance

	LIR	
	2018-2020	2022-2024
Debt to Income t-3		
Refi App index MBA t-1/t-2		***
Refi Incentive t-1		**
Unemployment Rate		
Consumer Price Index t -1		
Housing Affordability Index	**	Removed
% lenders reported tightening in underwriting		
Share of Gov or Enterprise of originations	*	
Refinance Share of Originations	***	***

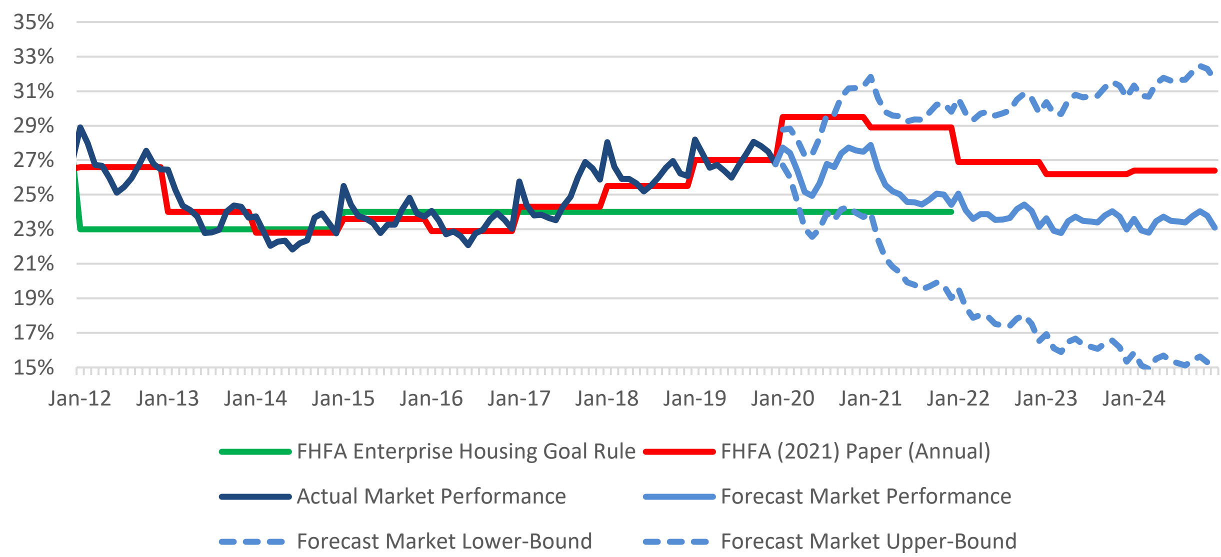
*Significance levels:*p<0.1,**p<0.05,***p<0.01.*

Appendix
Page A-7

Fannie Mae's Single-Family Monthly Housing Goals Market Forecasts

Figures 1-10:

Figure 1: Fannie Mae Model of Market Performance for the Low-Income Purchase Goal



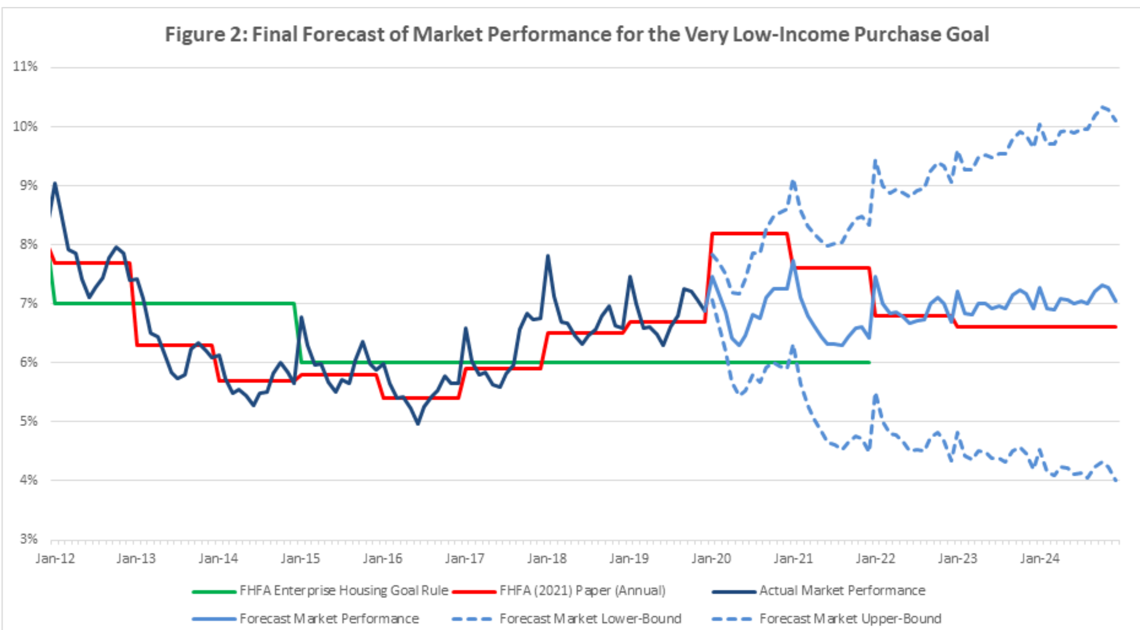


Figure 3: Fannie Mae Model Market Performance for the Low-Income Refinance Goal

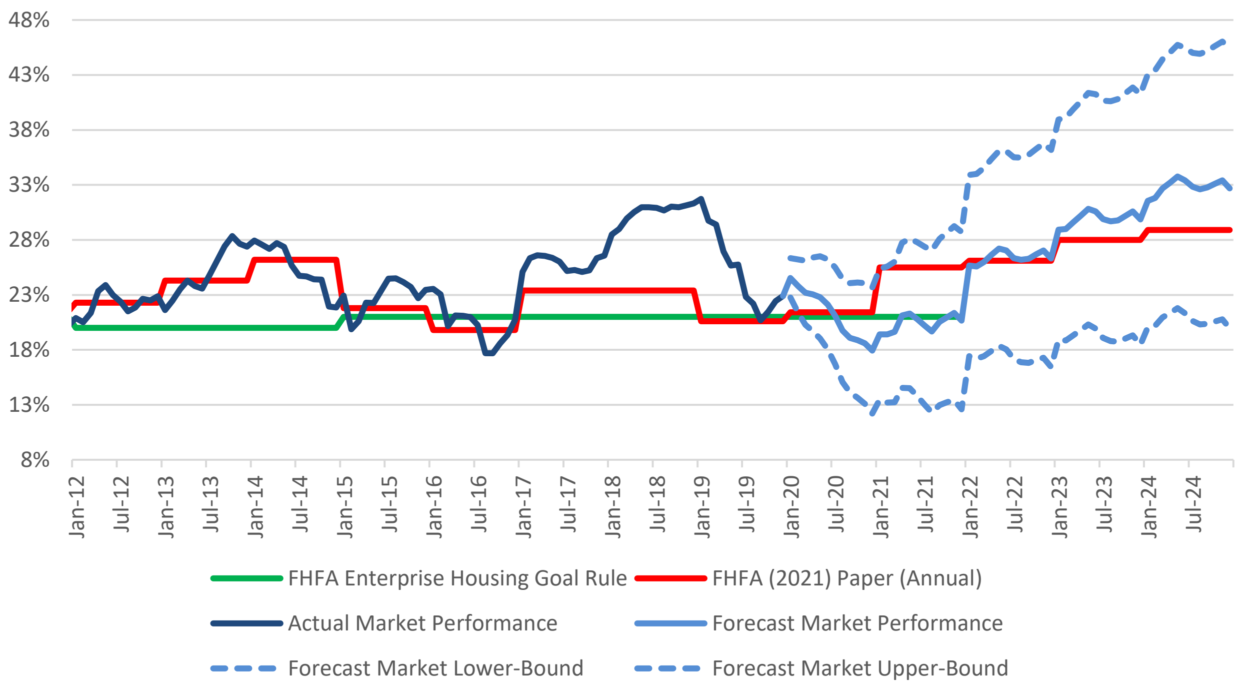
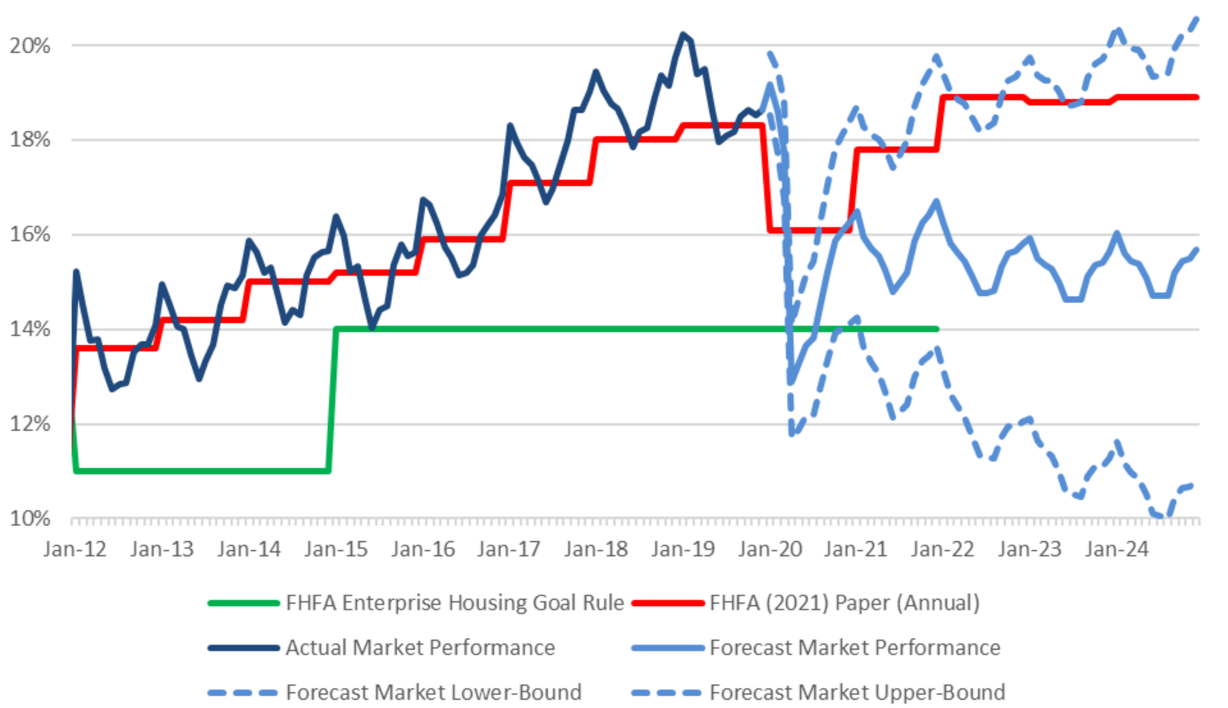


Figure 4: Fannie Mae Model Market Performance for the Low-Income Areas Subgoal



Predictor Comparisions Moody's vs Fannie Mae

Figure 5: 30FRM
Moody's vs Fannie Mae

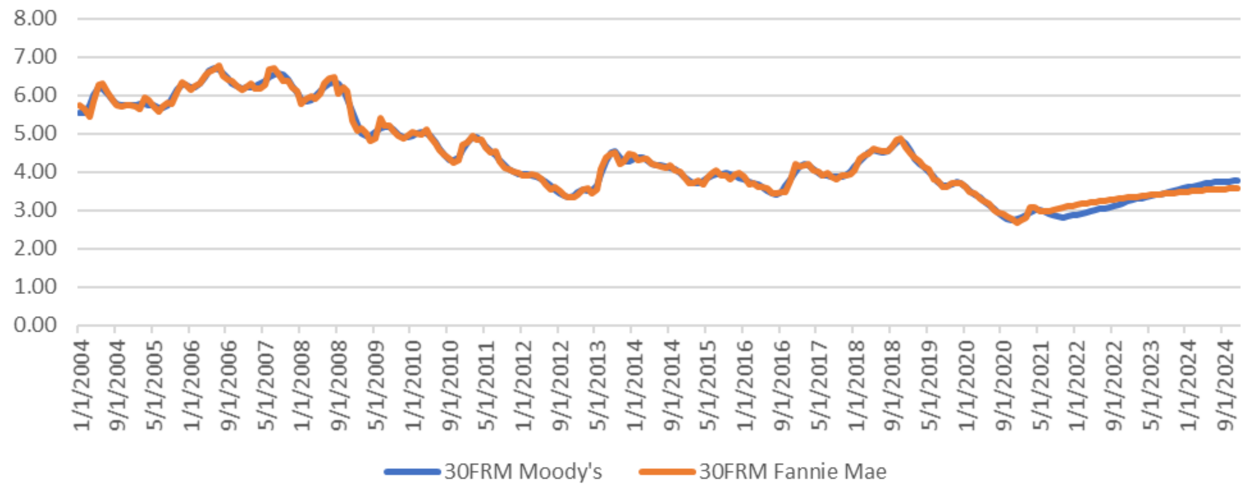
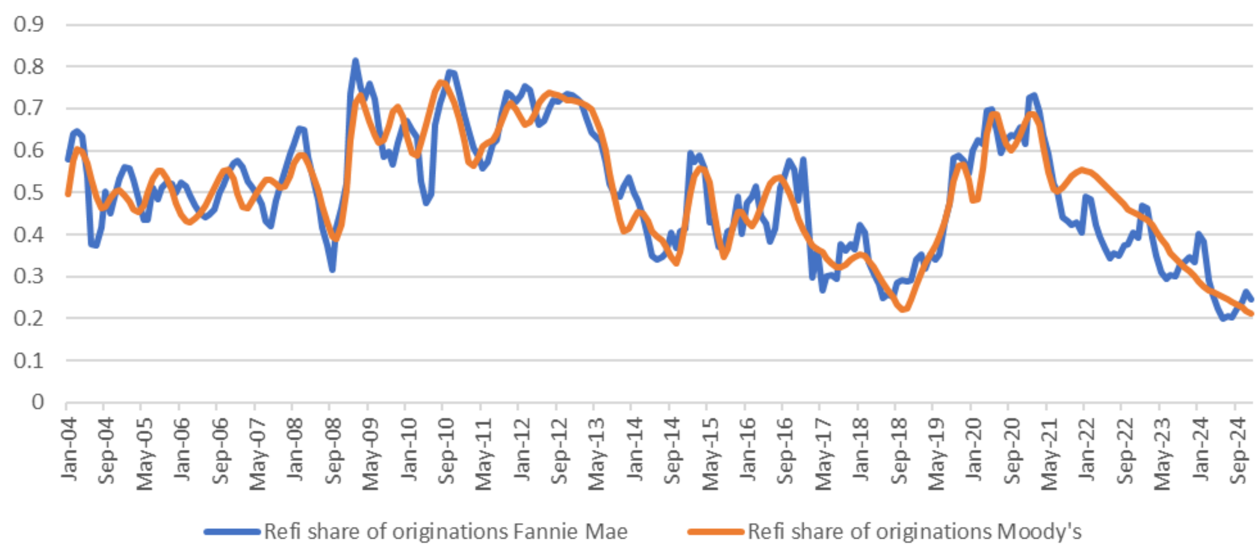


Figure 6: Refinance Share of Originations
Moody's vs Fannie Mae



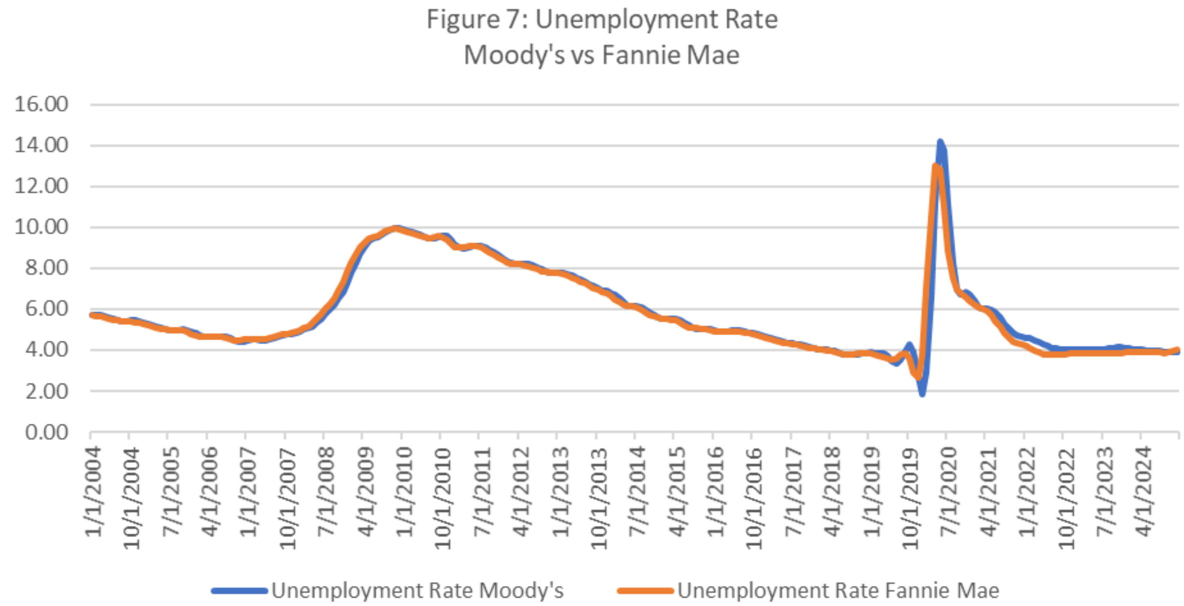


Figure 7: Unemployment Rate
Moody's vs Fannie Mae
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
1/1/2004
10/1/2004
7/1/2005
4/1/2006
1/1/2007
10/1/2007
7/1/2008
4/1/2009
1/1/2010
10/1/2010
7/1/2011
4/1/2012
1/1/2013
10/1/2013
7/1/2014
4/1/2015
1/1/2016
10/1/2016
7/1/2017
4/1/2018
1/1/2019
10/1/2019
7/1/2020
4/1/2021
1/1/2022
10/1/2022
7/1/2023
4/1/2024
Unemployment Rate Moody's
Unemployment Rate Fannie Mae

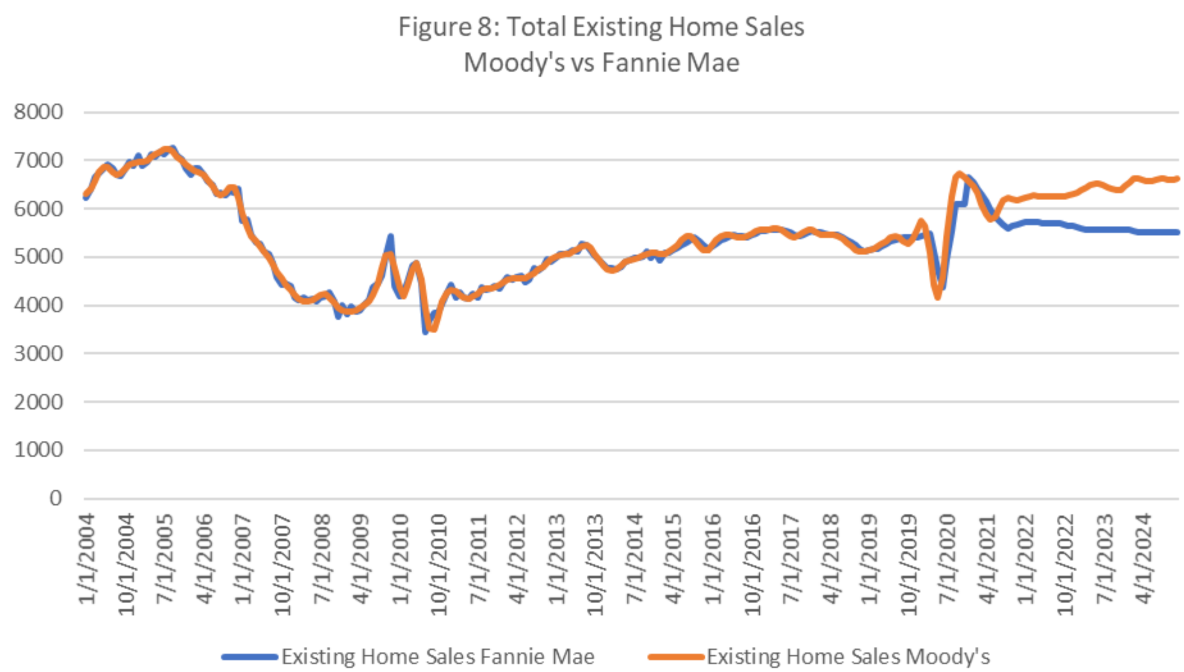
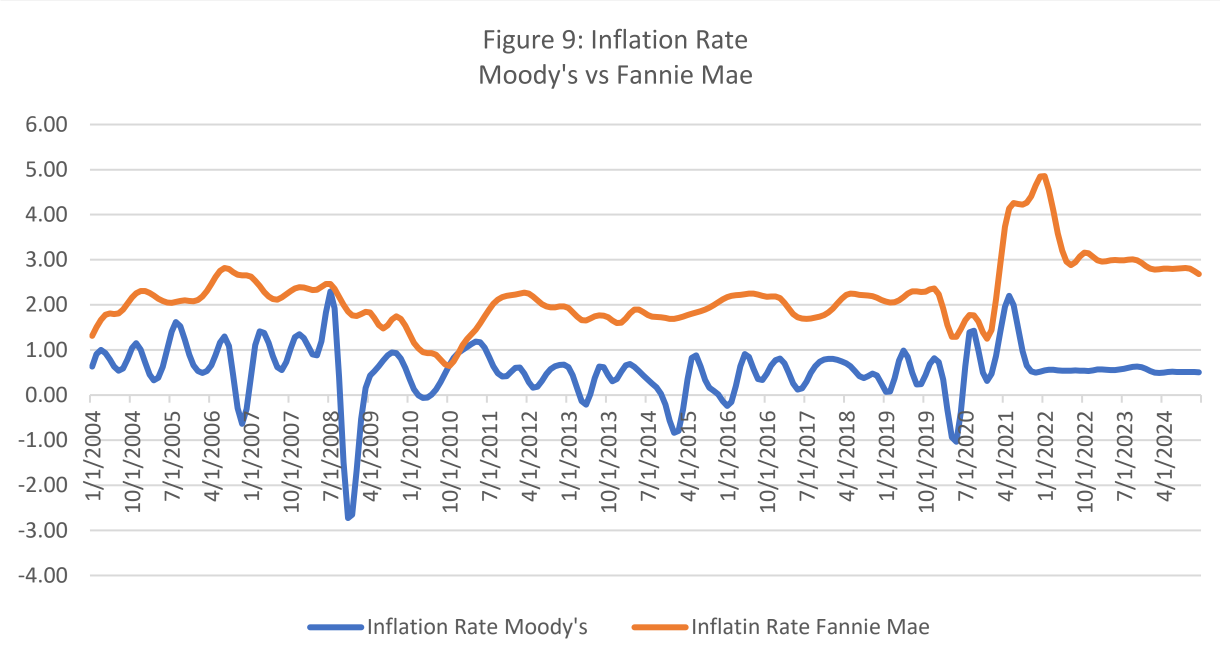


Figure 8: Total Existing Home Sales
Moody's vs Fannie Mae
8000
7000
6000
5000
4000
3000
2000
1000
0
1/1/2004
10/1/2004
7/1/2005
4/1/2006
1/1/2007
10/1/2007
7/1/2008
4/1/2009
1/1/2010
10/1/2010
7/1/2011
4/1/2012
1/1/2013
10/1/2013
7/1/2014
4/1/2015
1/1/2016
10/1/2016
7/1/2017
4/1/2018
1/1/2019
10/1/2019
7/1/2020
4/1/2021
1/1/2022
10/1/2022
7/1/2023
4/1/2024
Existing Home Sales Fannie Mae
Existing Home Sales Moody's



Source: S&P CoreLogic Case-Shiller

Figure 11
Notional Comparison of Refinance Results

Existing Loan		**Loan A**		**Loan B**
Loan balance	$	150,000	$	450,000
Note rate		3.75%		3.75%
P&I		$695		$2,084
Refinance Economics				
Closing costs (percentage)		4%		2%
Closing costs ($)	$	6,000	$	9,000
Note Rate Reduction		0.75%		0.75%
New P&I	$	658	$	1,935
P&I Reduction	$	37	$	149
Refinance Payback Period (months)		162		60

Tables

Table A
Rental Units Counts by AMI (in Millions)

Year	**AMI**	**5-9 Apartments**	**10-19 Apartments**	**20-49 Apartments**	**50 or more apartments**
2019	<30% of AMI	1.5	1.4	1.3	2.2
	31%-50% of AMI	0.9	0.9	0.7	0.9
	51%-80% of AMI	1.1	1.1	0.8	1.0
	81%-120% of AMI	0.8	0.8	0.6	0.9
	>120% of AMI	0.6	0.6	0.5	1.1
2018	<30% of AMI	1.6	1.4	1.3	2.2
	31%-50% of AMI	0.9	0.9	0.7	0.9
	51%-80% of AMI	1.1	1.1	0.8	0.9
	81%-120% of AMI	0.8	0.8	0.6	0.8
	>120% of AMI	0.6	0.6	0.5	1.0

Source: ACS

Table B

MBA Commercial Real Estate Finance (CREF) Forecast

August 2021

	Commercial/Multifamily Mortgage Bankers Originations (a)			Total Multifamily Lending (b)		
	10-year Treasury (c)	Mortgage Bankers Originations ($billions)	Mortgage Bankers Originations: % Change	10-year Treasury (c)	Total Multifamily Lending ($billions)	Total Multifamily Lending: % Change
2017	2.3%	$ 530	8%	2.3%	$ 285	6%
2018	2.9%	$ 574	8%	2.9%	$ 339	19%
2019	2.1%	$ 601	5%	2.1%	$ 364	7%
2020	0.9%	$ 442	-26%	0.9%	$ 360	-1%
Forecast 2021	1.7%	$ 578	31%	1.7%	$ 409	13%
Forecast 2022	2.3%	$ 597	3%	2.3%	$ 421	3%

a. Commercial/Multifamily Mortgage Bankers Originations represent loans closed on all types of income-producing properties, by firms with a dedicated commercial/multifamily mortgage platform. This number aims to match the volume captured in MBA's Annual Origination Volume Summation Report.

b. Total Multifamily Lending represents all multifamily lending, including the multifamily loans in (a) above, as well as multifamily loans closed by small and medium-sized banks and others not represented in (a) above. This number aims to match the volumes captured in MBA's Annual Report on Multifamily Lending.

c. Interest rates are annual averages.

Table C

Parameters	**Fannie Mae Underwriting Standards**	**Freddie Mac SBL Underwriting Standards***	**National, Regional, and Local Banks****	**POTENTIAL MODIFICATION to Current Fannie Mae Standards**
Minimum DSCR	1.25x	1.20x in select markets	1.20x or 1.15x in select markets	1.20x in select markets Risk: i) potential cashflow deficiency for borrower to make payments when occupancy declines; ii) increased refinance risk at maturity
Interest Only (IO)	1-year IO on 10-year loan term (assuming full leverage, acquisition only)	1-year IO on 5-year loan; 2-year IO on 7 years loan; 3-years IO on 10-year loan term	Varies depending on deposit relationship	Increase delegated IO Risk: Increased refinance risk at maturity
Loan Term and Prepayment Penalties	Target fixed rate loans >= 10-year terms and YM; DPP is available with pricing adder	Target shorter term fixed rate and Hybrid ARM loans (typically <= 10 years fixed); both YM and DPP	Same as Freddie Mac SBL; mostly Hybrid ARMs and DPP structures	Target more 5 and 7-year loans; increase appetite for Hybrid ARMs and DPP Risk: Increased refinance risk at maturity
Underwriting Floors to manage interest rate risk	Required in most cases	Not Required	Not Required	Eliminate Risk: Increased refinance risk at maturity
Minimum FICO	680	680	Varies depending on deposit relationship	May need to consider lower FICO scores on a Pre-Review basis. Risk: Increased credit risk around small loan borrower repayment of loan

Replacement Reserve (RR) Escrows	Required	Not Required	Not Required	Eliminate RR Escrow requirements. Risk: Limited small loan borrower financial wherewithal to cover ongoing repairs needed

*Based on Freddie Mac website
**Based on industry feedback

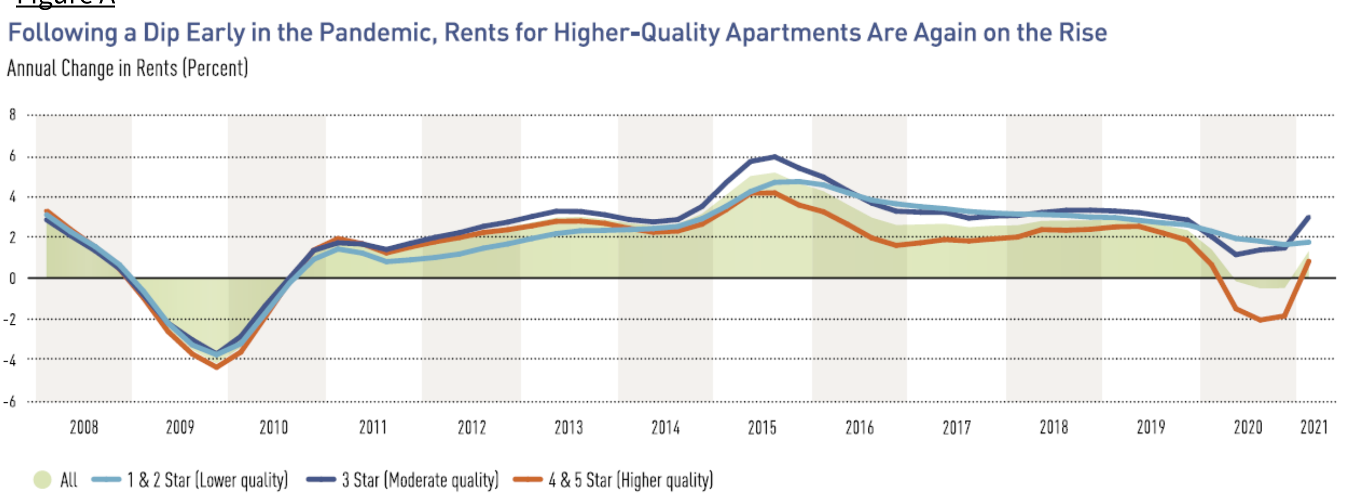
<u>Table D</u>

Loss ratio for liquidated loans: Acquired since 2000

Group	Cumulative Credit Loss Ratio	Severity Rate	Loan Count	Cumulative Credit Loss ($MM)	Acquired UPB ($MM)	Defaulted UPB ($MM)
5-50 Units	0.45%	49%	51,399	$205	$45,392	$419
Non-Small DUS: > $6MM	0.25%	21%	13,948	$646	$259,427	$3,009

Figures

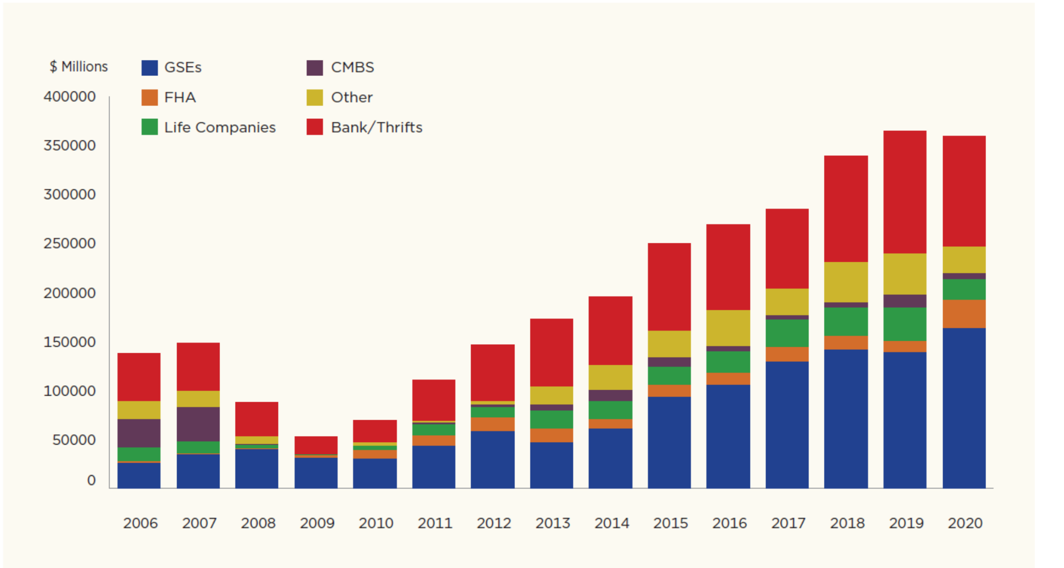
<u>Figure A</u>



Source: Harvard JCHS

<u>Figure B</u>

Multifamily Lending by Investor Group



Source: MBA

<u>Figure C</u>