Freddie Mac
We make home possible®

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By Electronic Delivery Through the Federal eRulemaking Portal

Mr. Clinton Jones
General Counsel
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street, SW
Washington, DC 20024

Re: Proposed Rulemaking on 2022-2024 Enterprise Housing Goals/RIN 2590-AB12 (Enterprise Housing Goals)

Dear Mr. Jones:

Freddie Mac is pleased to submit our enclosed comments on the Federal Housing Finance Agency's proposed rule regarding the 2022-2024 Enterprise Housing Goals.

Freddie Mac is committed to our statutory mission to provide liquidity, stability, and affordability to the U.S. housing market. We commend FHFA for its thoughtful development of the proposed rule and look forward to working toward our shared objective of supporting affordable and sustainable opportunities for homeowners and renters across the country.

Please do not hesitate to contact me if you have any questions.

Sincerely,

Michael J. DeVito

Enclosure

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OVERVIEW

Freddie Mac appreciates the opportunity to provide comments on the Federal Housing Finance Agency's ("FHFA") proposed rule to establish the 2022-2024 Enterprise Housing Goals ("Goals").[1]

FHFA has proposed ambitious housing Goals for 2022-2024. Freddie Mac is committed to making every effort to meet these Goals, including bringing forward recommended changes to long standing industry processes that may limit affordability today, all while preserving safe and sound practices.

On their own, these Goals increases are substantial compared to the 2018-2020 and 2021 Goals. The proposed increases to the single-family Goals range from 16 to 23 percent, and the multifamily Goals increases range from 31 to 130 percent, compared to the previous Goals periods.

At the same time, we observe significant headwinds that complicate efforts to grow the market for affordable homeownership and meet the proposed Goals targets. These headwinds stem from important market factors, including extreme home price appreciation and the shortfall in housing supply. And, directly due to these factors, the anticipated expansion of conforming loan limits in line with these trends could introduce a dilutive effect on the housing Goals results. These factors, both present and forecasted, play an important role in effectively advancing this work and measuring progress to expand affordable homeownership and should be fully considered when setting final Goals.

Freddie Mac is focused on meeting these challenges and eagerly embraces them. Our efforts to reach these Goals will promote creativity and spur the development of new initiatives, which will advance our broader mission to "promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas)[.]"[2]

Our comments on the Proposed Rule are organized as follows:

SECTION I discusses the proposed 2022-2024 single-family Goals. Freddie Mac supports the focus on expanding affordable homeownership and offers input on the proposed targets. In particular, we support the introduction of Minority Census Tracts and Low-Income Census Tracts Subgoals, which align with our efforts to promote equity in housing and expand sustainable homeownership opportunities throughout the Nation. However, we also identify complicating external factors that will impact both affordability in the market and Goals performance in the near future.

SECTION II discusses the proposed 2022-2024 multifamily Goals. Freddie Mac continues to play a vital role in the multifamily mortgage market, which is integral to our affordable housing mission. Given the growth of our multifamily business and market impact over the last several years, increases in the multifamily Goals in line with Freddie Mac's market position are appropriate. We support the proposed increases in the multifamily Goals as they represent meaningful, yet challenging, targets.

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[1] *See* FHFA, 2022-2024 Enterprise Housing Goals, 86 Fed. Reg. 47398 (Aug 25, 2021) (the "Proposed Rule").

[2] *See* Federal Housing Enterprise Finance Safety and Soundness Act of 1992, § 1382, 12 U.S.C. § 1451 note.

INTRODUCTION

(a) Freddie Mac's Mission: Making Home Possible Throughout the Nation

Freddie Mac's efforts to support affordable housing in the United States are guided by our charter, which obligates us "to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low-and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities)", and "to promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas)".[3] Our overall public mission, consistent with safety and soundness principles, must guide efforts to support affordable housing growth and preservation. These core statutory purposes shape Freddie Mac's work, forming our mission: stimulate homeownership and affordable housing opportunities for low- and moderate-income borrowers in communities across the country.

Our single-family business supported our mission in 2020 by financing more than 3.8 million single-family owner-occupied properties, including purchasing more than 454,000 mortgages of first-time homebuyers. Across the company, we continue to focus on meeting the needs of first-time and underserved homebuyers through sustainable offerings, the development of strong relationships, financial support for financial literacy, homeownership education, and counseling services.

In 2020, we experienced unprecedented refinance volume, including for loans eligible for the Low- Income refinance Goal. Nonetheless, we fell short of reaching this important Goal in 2020. We remain on track to achieving all of the single-family and multifamily Goals in 2021.

Freddie Mac's multifamily business is an affordable housing business. Approximately 88 percent of the loans we financed in 2020 supported low- and moderate-income households who earn no more than area median income. Freddie Mac helps meet the need for affordable rental housing by purchasing and securitizing multifamily mortgages originated by numerous financial institutions. Working through our network of lenders, Freddie Mac supports the financing of affordable apartment communities across America through a variety of products and services.

As we look ahead to 2022-2024, we see opportunities to advance our affordable housing mission, support the global recovery from the ongoing COVID-19 pandemic, and advance our commitment to racial equity in housing.

(b) Addressing the National Housing Shortage is an Urgent Priority

Limited housing supply is a significant obstacle facing borrowers, renters, policymakers, and the Enterprises. At Freddie Mac, we estimate that there is a severe housing supply deficit of 3.8 million units, with that deficit growing more than 50 percent from 2018 to 2020.[4] As FHFA recognized, housing supply is a prime factor determining affordability in housing, along with interest rates and demand. While interest rates are low, demand is high, and "the supply of affordable housing…[has] not kept pace with the growth of the demographic demand even before the advent of the COVID-19 pandemic."[5]

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[3] *See* Federal Housing Enterprise Finance Safety and Soundness Act of 1992, § 1382, 12 U.S.C. § 1451 note.

[4] *See* Freddie Mac, Housing Supply: A Growing Deficit (May 2021). Available at http://www.freddiemac.com/fmac-resources/research/pdf/202105-Note-Housing_Supply-08.pdf.

[5] *See* Proposed Rule, 86 Fed. Reg. at 47,404.

The supply shortfall is large and rising, especially for entry-level housing, as the share of such homes in overall construction declined from a 40 percent share in the early 1980s to around 7 percent share in 2019. Some of the most often cited reasons for the housing supply deficit are the lack of available construction labor, raw materials costs, land use regulations, zoning restrictions preventing supply from picking up in areas that have the most demand, NIMBYism (not in my back yard), lack of land developers, and lack of land to develop. These factors, among others, contribute to the long-term decline of the construction of single-family homes, which has driven the housing supply shortfall.[6] Freddie Mac is concerned about the growing national housing shortage, which we discuss in detail among other factors that will affect Goals performance, in Section I.B below.

I. Proposed 2022-2024 Single-Family Enterprise Housing Goals

The Proposed Rule would meaningfully increase the Low-Income purchase Goal, Very Low-Income purchase Goal, and Low-Income Refinancing Goal by 16 to 23 percent. In addition, the Proposed Rule would introduce two new Subgoals: (1) Minority Census Tracts; and (2) Low-Income Census Tracts. While Freddie Mac supports the focus on expansion of affordable homeownership, we encourage consideration of the external factors described below in Section I.B, which could complicate efforts to reach these targets given the current and forecasted conditions in the housing and origination markets.

As shown in the preamble to the Proposed Rule, the proposed increases to existing Goals would set targets that meaningfully exceed past performance for both Enterprises in most of the past ten years and the market as a whole.[7] In addition, and as noted above and described in greater detail in Section I.B below, these substantial increases would occur at a time where housing supply, home price appreciation, and other factors make Goals performance particularly difficult to forecast and control.

These proposed increases relative to the 2018-2020 and 2021 Goals will encourage Freddie Mac to identify new opportunities, develop new initiatives, and stretch more than ever to reach these targets. With FHFA's support, these new strategies could contribute to improved Goals performance that promotes more meaningful progress in making housing affordable and available to Low- and Very Low-Income borrowers.

(a) Introduction of Minority Census Tracts and Low-Income Census Tracts Subgoals

The proposed two new Subgoals (Minority Census Tracts and Low-Income Census Tracts), together with FHFA's announced Equitable Housing Finance Plans,[8] will contribute to the efforts of the Enterprises, FHFA, and the industry in promoting credit access throughout every neighborhood in the country. As proposed, the benchmark levels for each Subgoal set a meaningful target that encourages the Enterprises to design creative solutions to reach neighborhoods that have historically suffered from underinvestment.

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[6] *See* Freddie Mac, Housing Supply: A Growing Deficit (May 2021). Available at http://www.freddiemac.com/fmac-resources/research/pdf/202105-Note-Housing_Supply-08.pdf; Fannie Mae, Supply and Labor Constraints Continue to Hinder Economic Growth, Home Sales (Sept. 20, 2021).

[7] *See* Proposed Rule, 86 Fed. Reg. at 47,406.

[8] *See* FHFA, FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac (Sept. 7, 2021).

(b) External Market Factors Will Impact Low- and Very Low-Income Purchase Goal Performance

We provide information below that may prove useful to FHFA as it continues to consider how best to set the affordable housing Goals.

(i) Affordability Headwinds from House Price Appreciation and Income Inequality

Consistent with FHFA's discussion of the "many factors that impact the affordable segments of the housing market", we believe the current market environment poses substantial headwinds that will require not only significant effort, but also a creative approach to meet these Goals.[9] As discussed above, the national housing supply shortage is an urgent priority for policymakers, borrowers, and for Freddie Mac. In May of 2021, the Freddie Mac House Price Index measured a 17 percent increase to pricing in the single-family market, representing the highest year-over-year increase since we began this measurement in 1975.[10] Together with the rapid growth in home prices in the past year, the shortage directly impacts the affordable market for potential Low- and Very Low-Income borrowers.

Further, household income growth has not matched house price growth in recent years. According to estimates from the U.S. Bureau of Economic Analysis, from 2018 through 2020 per capita disposable income increased 10.4 percent, while house prices as measured by the December value of the seasonally adjusted FHFA purchase-only house price index increased 18.2 percent over the same period (2018-2020). Moreover, income inequality has also increased, with the bottom two quintiles (bottom 40 percent) of the income distribution seeing their share of total money income declining 5.2 percentage points from 2019 to 2020.[11] With income inequality on the rise at the same time home prices are appreciating, affordability opportunities in the housing market becomes increasingly scarce for potential Low- and Very Low-Income borrowers.

With home prices projected to continue to grow in 2021 and 2022, the volume of homes available to borrowers below 80 percent of the area median income become more and more scarce, especially considering that incomes for these borrowers have not kept pace with home price appreciation.[12] Our purchase price to income ratios soared during the COVID-19 pandemic, with internal analysis showing a three-decade high in this ratio, stretching affordability particularly in interior western and southwestern markets. Our commitment to safety and soundness demands that we monitor these affordability measures closely to avoid unsustainable lending. In addition, the COVID-19 pandemic has been particularly

[9] *See* FHFA, The Size Of The Affordable Mortgage Market: 2022-2024 Enterprise Single-Family Housing Goals (Aug. 3, 2021).

[10] *See* Freddie Mac, Quarterly Forecast: Housing Market Expected to Remain Strong Despite Major Supply Shortage and Historically High House Prices Across the U.S. Slowing Sales (July 15, 2021). Available at http://www.freddiemac.com/research/forecast/20210715_quarterly_economic_forecast.page.

[11] *See* Shrider, E. A., Kollar, M., Chen, F., & Semega, J. (2021). Income and Poverty in the United States: 2020. US Census Bureau, Current Population Reports P60-273. US Government Publishing Office, Washington, DC, September. Available at https://www.census.gov/content/dam/Census/library/publications/2021/demo/p60-273.pdf.

[12] *See* FHFA, The Size Of The Affordable Mortgage Market: 2022-2024 Enterprise Single-Family Housing Goals (Aug. 3, 2021) ("Everything else being equal, the expected increase in mortgage interest rates and house prices will likely affect the ability of low- and very low-income households to purchase homes. Housing affordability, as measured by Moody's forecast of the National Association of Realtors' Housing Affordability Index (HAI), is projected to decline from an index value of 166.3 in 2020 to 135.4 in 2024. (Lower values of the HAI imply that affordability has worsened). The third leg of the housing affordability stool is the supply of affordable housing, and this had not kept pace with the growth of the demographic demand even before the COVID-19 pandemic struck.").

harmful to renters and low-income individuals, with these groups experiencing a deeper impact relative to higher-income individuals.[13]

To further understand the potential impact of such growth in home prices, Freddie Mac developed a view of 80 percent (Low-Income) and 50 percent (Very Low-Income) affordability tiers using median county-level incomes, monthly supply levels, and house price appreciation, and also leveraging median price per square foot in CoreLogic MLS data. Assuming that borrowers cannot spend more than 40 percent of their annual income on housing (estimated with 3 percent down payment, 3.3 percent mortgage rate on a 30-year term), we calculated the maximum affordable home prices. This resulted in three key findings:

1) Available housing supply for such low-income homebuyers has fallen 9 percentage points over the last 3-years;[14]
2) Low- and Very-Low Income homebuyers have the largest deficits of housing supply; and
3) Historically, lower-priced homes have appreciated faster due to supply constraints.

These findings raise an important concern: creating more demand-side pressure through significantly higher Goals targets in a market of shrinking supply will likely push home prices higher. This result would frustrate the purpose of the heightened Goals, if the result is higher prices that make the market less affordable. These findings illustrate that, while Goals targets play an important role in promoting affordability, the targets themselves may not directly alleviate broader market stresses that burden potential Low- and Very Low-Income borrowers.

While these findings are concerning on their own, it should be noted that they are framed by a historically low-interest rate environment for mortgage loans, which may not persist into the 2022-2024 Goals period. Should interest rates rise modestly in the next Goals period, as FHFA has forecasted,[15] resultant increased financing costs should be expected to meaningfully limit the market for Low- and Very Low-Income borrowers beyond these findings.[16]

(ii) <u>Conforming Loan Limits are Expected to Continue to Rise</u>

Increases in home prices also affect another component of Goals performance: the conforming loan limit. With the conforming loan limit likely to increase substantially in 2022 given trends in home price appreciation, the market for Enterprise-eligible loans will grow, and specifically, the portion of the market that does not qualify for Goals credit. Because of the way in which the Goals are measured, mortgages purchased at or near the conforming loan limit have a dilutive impact on overall Goals performance, and an increase in the limit enables more volume, which in turn increases that dilution. As a result, a Goals credit/mortgage purchase volume incongruity may occur.

In a year in which there is an unprecedented high volume of mortgage purchases that are Goals eligible and also a high volume of mortgage purchases that do not qualify for Goals credit, an Enterprise may miss one or more of the Goals solely because of the increase in the denominator. In such a case, we do not believe that such an unintended outcome accurately reflects the commitment and efforts of the

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[13] *See* The Joint Center for Housing Studies of Harvard University, The Unequal Impacts of the Pandemic Persisted into 2021 (March 2021). Available at https://www.jchs.harvard.edu/son-2021-unequal-impact-pandemic.

[14] At lower housing costs-to-income thresholds of 25%, 30%, and 35%, we observed low-income housing supply decreases of 7 percent, 8.8 percent, and 9.2 percent, respectively.

[15] *See* FHFA, The Size Of The Affordable Mortgage Market: 2022-2024 Enterprise Single-Family Housing Goals (Aug. 3, 2021) ("Moody's July 2021 forecast … projects that mortgage interest rates – in particular the 30-year fixed rate … – will rise gradually from the current historic low of 3.1 percent in 2020 to 4.3 percent by 2024.").

[16] *See* Id. ("Everything else being equal, the expected increase in mortgage interest rates and house prices will likely affect the ability of low- and very low-income households to purchase homes.").

Enterprise to advance affordable housing. Therefore, we ask FHFA to take into consideration the impact a change to the conforming loan limits as described in this paragraph may have on the achievement of housing Goals.

(iii) Heightened Challenges to Market Forecasts for 2022-2024

Forecasting the 2022-2024 Goals years is exceptionally challenging. The confluence of recent extreme market factors, as described above, increases the volatility of this forecast. In 2020 and 2021, many economic indicators were at historical extremes. Forecasting models, which are based on historical data, often perform poorly when projecting outside or near the limit of the historical range of input variables.

Given the elevated level of volatility, forecasts will be more sensitive than usual to assumptions, inputs, and model parameters. Thus, small differences in modeling approaches that in normal times lead to small differences in forecasts may lead to larger than typical differences in forecasts. The heightened uncertainty that arises from the extreme economic conditions of the past two years also means that there is a larger than usual chance that forecasts will deviate substantially from the realized path of the target variables.

FHFA should consider the effect of market dynamics and forecast volatility on whatever benchmark FHFA decides to use. Further, we believe a constructive dialogue regarding forecasting conforming market origination volumes and considerations would be valuable. If FHFA does more outreach regarding market forecasts, we would look forward to participating in such outreach opportunities.

(iv) Implementation of Proposed Housing Goals

An implementation period may be appropriate to allow timely and well-calibrated business adjustments to meet significant increases to Goals benchmarks. Enterprise implementation of final Goals will require time to adjust risk, pricing, and technology parameters that would support achieving the Goals. The proposed 16.7 percent increases in the benchmark Low-Income and Very Low-Income purchase Goals should be understood in context to the current and foreseeable conditions described in this section. Importantly, if the current market factors persist, more ambitious Goals may not be achievable or effective, particularly without time to implement necessary modifications.

We believe FHFA has several tools to mitigate the implementation challenges facing the Enterprises and provide appropriate time to adjust to the proposed targets effectively, including the following two suggested alternative approaches. First, FHFA could phase in and ramp up the increases to the Goals over the three-year 2022-2024 period, assuming forecasts match conditions in future years. Alternatively, FHFA could delay the implementation date of the 2022 Goals until a set effective date. If FHFA takes this approach, it could weigh the 2022 benchmark targets by producing a benchmark that includes the 2021 benchmarks pre-effectiveness, and the 2022 proposed benchmarks post-effectiveness.[17]

While many of the market factors described above are beyond our control or influence, and will impact Goals performance, we recognize the urgent need to effectively promote affordable and sustainable homeownership opportunities, particularly for Very Low-, Low-, and moderate-income borrowers. In that spirit, we are eager to contribute solutions that grow affordable housing opportunities, break down historical barriers to wealth creation that widen the racial homeownership and wealth gap, and meet our regulatory Goals obligations.

[17] For example, the Low-Income purchase Goal was 24 percent in 2021, and is proposed to be 28 percent in 2022. If FHFA determines to set an effective date of April 1, 2022, the Goal could be weighed as 27 percent for the year.

(c) Promote Alignment with Goals and Community Reinvestment Act Programs

As FHFA considers changes to the Goals rules, we would encourage FHFA to consult with the federal banking regulators. Freddie Mac recognizes that the federal banking regulators continue to review opportunities to modernize regulations for compliance with the Community Reinvestment Act (the "CRA"). We are encouraged by these discussions and would support efforts to align the CRA and Goals frameworks to improve efficiencies across these related programs.

Freddie Mac has a statutory duty to assist depository institutions in meeting their CRA obligations.[18] In turn, to meet our Goals obligations, we work closely with banks that are subject to the CRA. According to our data, more than half of the single-family loans we purchase that are eligible for Goals credit are from banks subject to the CRA.[19] Given this close relationship, and the importance of aligning primary and secondary market activities to support the growth of affordable housing opportunities, we support efforts to modernize the CRA and would be eager to contribute to these discussions.

II. Proposed 2022-2024 Multifamily Enterprise Housing Goals

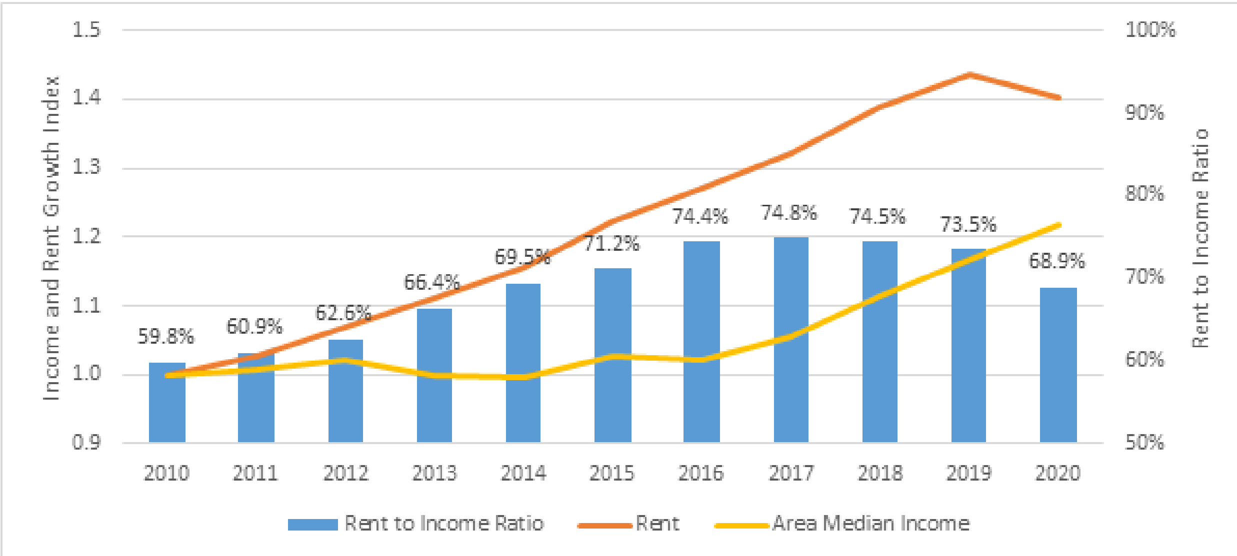
The Proposed Rule would increase the Low-Income Goals, Very Low-Income Subgoals, and Small Multifamily Low-Income Subgoals substantially. Freddie Mac supports the proposed multifamily Goals, which are ambitious and will require the Enterprises to maintain a strong and meaningful commitment to supporting affordable housing in each of the covered years.

[18] *See* Federal Housing Enterprise Finance Safety and Soundness Act of 1992, § 1335(b)(3)(B), 12 U.S.C. § 4565(b)(3)(B).

[19] We also note that the CRA rules impact our multifamily business. Our bank-affiliated Optigo® Multifamily lenders were responsible for about one-quarter of the loan balance and housing units of Freddie Mac's low-income affordable multifamily housing activity.

The growing cost of rental housing will be a significant obstacle towards meeting these Goals in the future. As reflected in Figure 1 below, we see that rent growth has outpaced income growth since 2010.

Figure 1
Rent Growth vs. Income Growth from 2010 to 2020[20]



While there was some leveling of the trend from 2016 through 2019, and a decrease in the rent-to-income ratio from 2019 to 2020 (largely attributable to rent decreases during the pandemic coupled with an increase in public subsidies that supported income during this period), this is not likely to persist. Already rent levels are returning to or above pre-pandemic levels in many markets, and rent growth rates are very high, upwards of 10 percent annually in the summer of 2021.[21] As stimulus, unemployment benefits, and rent support (which was not necessarily evenly distributed) wears off—and as new supply to the market continues to be limited and generally not affordable—rent growth could again outpace income growth. Further, as income inequality continues to grow, those most in need of affordable housing are likely to continue to be met with a shortage of affordable and available units.

This means that each year there are likely to be fewer units affordable to very low- and low-income renter households. Fewer affordable units to finance means the social impact of achieving the Goals and financing these units will increase with each passing year, while, at the same time, it will be progressively harder for the Enterprises to meet or exceed the Goals. Nonetheless, Freddie Mac is well-positioned to meet these more aggressive Goals, so long as we maintain our typical annual market share and are able to continue to innovate in the spaces of programs and product development to meet changing market needs.

CONCLUSION

Freddie Mac appreciates the opportunity to comment on the proposed 2022-2024 Goals. We are focused and committed to making a meaningful contribution to expanding affordable homeownership. Our Goals obligations are a central means by which we focus our resources and measure the success of our efforts to achieve our mission of promoting liquidity, stability, and affordability in the U.S. mortgage markets. As we strive to reach the proposed Goals, we are grateful for the challenge and opportunity to contribute to more affordable housing markets throughout the Nation.

[20] AMI data supplied by FHFA and rent data supplied by Reis.

[21] As reported by RealPage, Yardi Matrix, and Witten Advisors.