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October 25, 2021

Mr. Ted Wartell  
Associate Director, Housing & Community Investment  
Federal Housing Finance Agency  
400 Seventh Street SW  
Washington, DC 20219

**RE: 2022-2024 ENTERPRISE HOUSING GOALS (RIN 2590-AB12)**

Submitted by Electronic Delivery: [RegComments@fhfa.gov](mailto:RegComments@fhfa.gov) and [www.regulations.gov](http://www.regulations.gov)

Dear Mr. Wartell:

On behalf of the National Association of Home Builders (NAHB), I appreciate the opportunity to provide comments in response to the proposed rule, *2022-2024 Enterprise Housing Goals*.

NAHB is a Washington, DC-based trade association representing more than 140,000 members involved in all aspects of the development and construction of for-sale single-family homes, including homes for first-time and low-to-moderate (LMI) home buyers, as well as the production and management of affordable rental housing. The ability of the home building industry to address affordable housing needs is dependent on a housing finance system that facilitates access to mortgage credit for single-family and multifamily housing in all geographic locations in all economic conditions.

The housing goals mandate is an important tool for supporting the affordable housing mission of Fannie Mae and Freddie Mac (the Enterprises) and responding to affordable housing needs across the nation. This proposed rule recommends specific single-family and multifamily loan purchase goals and subgoals for the Enterprises. It also proposes two new single-family home purchase subgoals to replace the existing low-income areas subgoal, and it makes technical corrections to definitions and other provisions.

**Background**

The Housing and Economic Recovery Act of 2008 (HERA) amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act) to require the Federal Housing Finance Agency (FHFA) to establish, monitor and enforce annual housing goals for the Enterprises effective for 2010 and each year thereafter. Since 2010, the housing goals have included four goals and one subgoal for single-family owner-occupied housing. In 2010, the housing goals for multifamily housing included one goal and one subgoal. Effective with the 2015 goals, an additional subgoal was added for multifamily housing to measure units affordable to families with incomes no greater than 80 percent of area medium income (AMI) in small multifamily rental properties (5 to 50 units).

The Enterprises housing goals are a critical tool to support affordable homeownership for very low-, low- and moderate-income homebuyers. As housing affordability has fallen recently due to many factors, these goals are more important than ever to a significant number of American families. In today's market, the housing supply

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shortage, cost of lumber and other building supplies, limited supply of buildable lots, a scarcity of skilled labor, and rising regulatory costs all are contributing to higher home prices and rents and declining housing affordability. NAHB analysis shows that regulatory requirements alone account for 25 percent of the cost of constructing a single-family home, and 32 percent of the cost of a multifamily project.

According to the NAHB/Wells Fargo Housing Opportunity Index (HOI), 56.6 percent of new and existing homes sold between the beginning of April 2021 and end of June were affordable to families earning the U.S. median income of \$79,900. This is down sharply from the 63.1 percent of homes sold in the first quarter of 2021 and the lowest affordability level since NAHB began using the calculation in the first quarter of 2012.

The HOI for a given area is defined as the share of homes sold in that area that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria, which assumes a family can afford to spend 28 percent of its gross income on housing. For purposes of the HOI, housing cost includes monthly principal and interest based on a 30-year fixed rate mortgage, with a loan for 90 percent of the sales price. The interest rate used for the index is an average of the 30-year fixed effective rate from Freddie Mac's Primary Mortgage Market Survey during that quarter. In addition to principal and interest, housing cost also includes estimated property taxes and property insurance for that home.

### Single-Family Housing Goals

FHFA has proposed an increase in the benchmark level of each single-family housing goal for 2022-2024. In addition, FHFA proposes two new home purchase subgoals in place of the existing low-income areas subgoal.

The new subgoals would establish individual benchmark levels for owner-occupied, home purchase mortgage loans in minority census tracts and low-income census tracts. Low-income census tracts are defined as census tracts with a median income no greater than 80 percent of AMI. Minority census tracts are defined as census tracts with a minority population of at least 30 percent and a median income of less than 100 percent of AMI.

The subgoal specific to low-income census tracts would establish a four percent benchmark level for the Enterprises' purchases of mortgage loans on properties in low-income census tracts, regardless of the borrowers' income, that are not minority census tracts and to borrowers with incomes greater than 100 percent of AMI in low-income census tracts that also are minority census tracts. The benchmark level is lower than the recent purchase performance of both Enterprises in this category when measured as if the proposed subgoal had been in place. It was reported by "Inside the GSEs" that FHFA set this benchmark level low so the Enterprises would not be contributing to the gentrification of low-income areas by supporting home purchases by higher-income borrowers.<sup>1</sup>

The subgoal specific to minority census tracts would establish a 10 percent benchmark level for the Enterprises' purchases of mortgage loans on properties in minority census tracts made to borrowers with incomes no greater than 100 percent of AMI.

The existing low-income areas benchmark counts purchase mortgage loans from the same census tracts as the proposed new subgoals, but allows any combination of borrowers to make up the 14 percent benchmark. The proposed rule suggests the same benchmark level of 14 percent, but breaks out the targeted benchmark levels

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<sup>1</sup> Inside the GSEs, September 3, 2021. "Understanding the Affordable Housing Goals for the GSEs," Page 10.

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into two distinct census tracts to emphasize FHFA’s determination to increase the Enterprises’ purchase of mortgage loans made to low-income homebuyers in minority census tracts and also to acknowledge that minority homebuyers in low-income census tracts that also are minority census tracts might be upper-income borrowers.

### Proposed Housing Goal Levels

#### *Single-Family Housing Goals and Subgoals:*

Goal	Criteria	Current Benchmark level for 2021	Proposed Benchmark level for 2022-2024	Fannie Mae Performance in 2020	Freddie Mac Performance in 2020
Low-Income Home Purchase	Home purchase mortgage loans on owner-occupied single-family homes to borrowers with incomes no greater than 80% of AMI	24 percent	28 percent	29 percent	28.8 percent
Very-Low-Income Home Purchase	Home purchase mortgage loans on owner-occupied single-family homes to borrowers with incomes no greater than 50% of AMI	6 percent	7 percent	7.3 percent	6.9 percent
Low-Income Refinancing Goal	Refinancing mortgages on single-family, owner-occupied properties, to borrowers with incomes no greater than 80 percent of AMI.	21 percent	26 percent	21.2 percent	19.7 percent
Minority Census Tracts Subgoal	Home purchase mortgages on single-family, owner-occupied properties to borrowers with incomes no greater than 100 percent of AMI in minority census tracts.	N/A	10 percent	10.1 percent*	9.2 percent*
Low-Income Census Tracts Subgoal	(i) Home purchase mortgages on single-family, owner-occupied properties to borrowers (regardless of income) in low-income census tracts that are not minority census tracts, and (ii) home purchase mortgages on single-family, owner-occupied	N/A	4 percent	8.3 percent*	8.0 percent*

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	properties to borrowers with incomes greater than 100 percent of AMI in low-income census tracts that are also minority census tracts.				
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\* Recent performance, when measured as if the proposed subgoal had been in place.

### NAHB Recommendations

#### *Very Low and Low-Income Goals*

FHFA proposes to increase the benchmark levels for both the very low and low-income purchase goals for the Enterprises. Though FHFA's model forecasts a decline in the market of low-income qualifying loans to 26 percent for years 2022-2024, the agency has proposed a benchmark goal level of 28 percent. Similarly, FHFA proposes a benchmark level of 7.0 percent for the very low-income benchmark goal though the market forecast is projected to be between 6.4 and 6.8 percent for years 2022-2024. NAHB agrees this is a reasonable approach to encourage the Enterprises to find ways to support very low and low-income borrowers without compromising safe and sound lending standards when considered in the context of the Enterprises' recent performance. Both Enterprises exceeded the benchmark and actual market levels for both goals in years 2018-2020 and in some cases exceeded the current proposed increased benchmarks of 28 percent and 7 percent, respectively.

#### *Low-Income and Minority Census Tracts Subgoals*

NAHB appreciates FHFA is proposing to count borrowers with incomes greater than 100 percent of AMI toward the benchmark purchase goal of 4 percent in low-income census tracts that also are minority census tracts. However, we believe such a significant decrease from the levels of these loans currently purchased by the Enterprises may deter them from purchasing loans made to middle- and high-income minorities choosing to live in minority census tracts.

In addition, while NAHB understands FHFA has limited the purchase of mortgage loans in minority census tracts to borrowers with incomes no greater than 100 percent of AMI to reduce the incentive for the Enterprises to purchase mortgage loans made to higher-income homebuyers purchasing in areas with large minority populations, NAHB believes this potentially eliminates mortgage loans to support workforce housing to minorities with incomes up to 120 percent of AMI.

NAHB urges FHFA to allow the purchase of mortgage loans in minority census tracts to moderate-income borrowers with incomes up 120 percent of AMI. Workforce housing is commonly defined as housing affordable to borrowers with incomes between 60 percent and 120 percent of AMI and the supply of housing available to this group is not adequate. NAHB believes an increase to 120 percent of AMI in this subgoal certainly would capture additional minorities and other traditionally underserved homebuyers such as teachers, firefighters, police officers, and other professionals that cannot afford to live in the neighborhoods they serve.

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### *Low-Income Refinancing Goal*

The proposed benchmark for the low-income refinancing purchase goal proposes the largest increase from both the current benchmark and the 2020 performance by Fannie Mae and Freddie Mac. NAHB believes the higher proposed benchmark level of 26 percent is appropriate even though interest rates are forecast to increase in the years 2022-2024. As a general rule, as interest rates rise, originations of refinance loans slows. NAHB's economists expect mortgage interest rates to increase gradually through 2022 -2024 and estimate the 30-year mortgage rate to exceed 4 percent by the end of 2024. Per FHFA, Moody's forecasts the share of refinance originations to sharply decline between now and the end of 2024 to 24 percent of overall mortgage originations in 2024.

Both Enterprises have introduced new refinancing options for borrowers with incomes below 100 percent AMI to make it easier for lower-income homeowners with Fannie Mae- and Freddie Mac-owned mortgages to refinance at a lower interest rate and reduce their monthly mortgage payment. RefiNow™ (Fannie Mae) and Refi Possible (Freddie Mac) require the lender to be able to reduce a borrower's mortgage interest rate by at least .5 percent and lower the monthly mortgage payment by at least \$50. If the borrower is not eligible for an appraisal waiver, the lender must give the borrower a credit of up to \$500 to cover the cost of the home appraisal. The Enterprises also have eliminated the 50-basis point adverse market refinance fee on deliveries of refinanced mortgage loans.

These are significant allowances and should encourage lower-income homeowners to explore refinancing, although the response to the enhanced programs could be somewhat tempered if interest rates increase as predicted by NAHB.

NAHB recommends FHFA increase the income level for mortgages counted toward the low-income refinancing goal from 80 percent of AMI to 100 percent of AMI. This will align the income level in the goal with the recent income increase in the refinance programs as well as support an increased number of low-income homeowners.

### **Multifamily Housing Goals and Subgoals**

<b>Goal (number of units)</b>	<b>Criteria</b>	<b>Current Benchmark 2021</b>	<b>Proposed Benchmark 2022-2024</b>	<b>Fannie Mae Performance</b>	<b>Freddie Mac Performance</b>
Low-Income Goal	Affordable to families with incomes no greater than 80% of AMI in multifamily rental properties with mortgages purchased by an Enterprise	315,000	415,000	2018: 421,813 2019: 385,763 2020: 441,773	2018: 474,062 2019: 455,451 2020: 473,338
Very-Low-Income Subgoal	Affordable to families with incomes no greater than 50% of	60,000	88,000	2018: 80,891	2018: 105,612

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	AMI in multifamily rental properties with mortgages purchased by an Enterprise			2019: 79,649 2020: 95,416	2019: 112,773 2020: 107,105
Small Multifamily Low-Income Subgoal	Affordable to families with incomes no greater than 80% of AMI in small multifamily rental properties (5 to 50 units) with mortgages purchased by an Enterprise	10,000	23,000	2018: 11,890 2019: 17,832 2020: 21,797	2018: 39,353 2019: 34,847 2020: 28,142

### NAHB Recommendations

In a departure from FHFA's historically conservative approach to setting the multifamily affordable housing goals, the Agency has proposed substantial increases for each goal and subgoal. In numerous comment letters, NAHB advised that it is important that the Enterprises' goals are challenging, but reasonably so. Affordable rental housing is desperately needed, and NAHB supports FHFA's proposed benchmarks for 2022-2024.

A review of the Enterprises' performance for each multifamily goal and subgoal suggests that FHFA's new benchmarks are reasonable and achievable. Freddie Mac's performance for each goal and subgoal from 2018-2020 comfortably exceeded the new proposed benchmarks for each category. Fannie Mae performed well-above the benchmarks set for the 2018-2020 period and appears well-positioned to successfully reach the higher benchmarks proposed for 2022-2024. Even as the COVID-19 pandemic slowed or stopped multifamily construction during 2020, Fannie Mae's performance that year would still have exceeded the new proposed benchmarks of 415,000 units for the low-income goal and 88,000 units for the very-low-income subgoal. The data show a steady climb in Fannie Mae's small multifamily affordable loan purchases from 2018-2020, which suggest the new 23,000 unit benchmark is definitely within reach.

Importantly, FHFA has provided the Enterprises with the flexibility and incentives to achieve the new benchmarks. First, FHFA and the U.S. Treasury Department (Treasury) suspended the \$80 billion multifamily loan purchase limit per Enterprise in the Preferred Stock Purchase Agreements (PSPAs) that govern Treasury's support for Fannie Mae and Freddie Mac (the Enterprises). Likewise, FHFA raised the multifamily volume caps from \$70 billion per Enterprise in 2021 to \$78 billion per Enterprise in 2022. At least 50 percent of the Enterprise loan purchases must support affordable housing, and 25 percent of the Enterprises' multifamily business must be affordable to residents earning no more than 60 percent of AMI. The Enterprises must also fulfill their Duty-to-Serve obligations and will need to plan initiatives to facilitate racial equity in housing going forward.

NAHB's forecast for new multifamily construction starts anticipates the market will level off but still remain strong through 2023 (a forecast for 2024 is not yet available). NAHB forecasts 455,000 multifamily units in 2021, followed by 420,000 multifamily units for each of 2022 and 2023. All of these figures remain well above the pre-housing crisis average of 344,000 units per year from 2000 to 2007. Telecommuting and other factors continue

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to drive demand for multifamily construction is the suburbs, and communities with the ability to add affordable housing will grow. Although inflation, cost of materials, lot shortages, labor shortages and supply chain interruptions remain serious concerns, we believe the proposed multifamily affordable housing goals are reasonable when weighed against the strong need for affordable housing, the Enterprises' performance over the last several years and the incentives Fannie Mae and Freddie Mac receive to support affordable housing.

### *Recommended Additional Housing Goal for Workforce Housing*

NAHB urges FHFA to add a multifamily housing goal for the purchase of mortgage loans that support workforce housing. We recommend FHFA give goals credit to the Enterprises for purchase mortgage loans on multifamily rental properties with a prescribed number of rental units affordable to moderate-income families with incomes between 60 percent and 120 percent of AMI. Workforce housing is commonly defined as housing affordable to borrowers in this income category, and the supply of housing available to this group is not adequate. Though borrowers with incomes up to 80 percent of AMI already are included in some of the current goals, the common definition of workforce housing uses incomes between 60 percent and 120 percent of AMI. As NAHB discussed in its recommendations for single-family housing goals, many first-responders, teachers, and other professionals cannot afford to live in the neighborhoods they serve. NAHB believes an additional housing goal focused on rental housing for the workforce falls within the public mission of the Enterprises to serve low- and moderate-income families and traditionally underserved markets.

### **Conclusion**

Thank you for your consideration of NAHB's recommendations. For more information, please contact Rebecca Froass, Director of Financial Institutions and Capital Markets at [rfroass@nahb.org](mailto:rfroass@nahb.org) or Michelle Kitchen, Director of Multifamily Finance at [mkitchen@nahb.org](mailto:mkitchen@nahb.org).

Sincerely,



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Vice President