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Mr. Clinton Jones
General Counsel
Federal Housing Finance Agency
400 7th Street SW, 10th Floor
Washington, DC 20219

October 25, 2021

Re: 2022-2024 Enterprise Housing Goals Proposed Rule (RIN-2590-AB12)

To: Mr. Clinton Jones, General Counsel, Federal Housing Finance Agency

The Center for American Progress ("CAP") welcomes the opportunity to submit comments in response to the Federal Housing Finance Agency (FHFA)'s proposed rule on the 2022-2024 Enterprise Housing Goals (RIN-2590-AB12). CAP is an independent, nonpartisan policy institute dedicated to improving the lives of Americans through bold, progressive ideas and action. As part of its core mission, CAP conducts research and develops policy ideas that help enhance the economic security of all Americans, boost their opportunities for advancement, and promote equality.

CAP commends the FHFA's proposed expansion of the affordable housing goals for the government-sponsored enterprises (GSEs) and the new subgoals targeting communities of color. The proposed rule is consistent with the mission of the GSEs to serve all markets at all times and to support access to affordable homeownership in underserved low-income communities and communities of color. The proposed rule increases the benchmark levels for both home purchase and refinance lending to low-income borrowers.[1] FHFA's effort to boost lending in underserved communities is very critical at a time when homeownership is out of reach for many low-income families and families of color due to increasing home prices while incomes have remained stagnant. Most importantly, the new subgoals targeting communities of color are critical for addressing the racial wealth gap since they have the potential of increasing the ability of families of color to build equity and accumulate wealth through homeownership. In this comment letter, CAP recommends that in the future the FHFA incorporates race and ethnicity as well as environmental justice and climate-change indicators into the formulation of the affordable housing goals for the Enterprises.

Single-Family Home Purchase Goals: Background

Fannie Mae and Freddie Mac (the GSEs) are required by Congress to provide stability in the secondary market for residential mortgages and to promote access to mortgage credit in underserved markets. In the early 1990s, the Federal Housing Enterprises Financial Safety and Soundness Act (the GSE Act) of 1992 expanded the housing mission for both Fannie Mae and Freddie Mac and called for the U.S. Department of Housing and Urban Development (HUD) to establish annual affordable and geographic goals for the GSEs' loan purchases.

The affordable housing goals were originally formulated to foster one of the public purposes of the GSEs: to provide ongoing assistance to the secondary market for conforming home mortgage loans, in particular those for low- and moderate-income families. The goals, which were specified in terms of total units financed by GSE purchases, addressed three segments of the mortgage market: (1) low- and moderate-income families; (2) borrowers in geographically targeted underserved areas; and (3) very low-income families and low-income families in low-income areas. The current goals for single-family home purchases, which reflect the definitions modified by the Housing and Economic Recovery Act (HERA) of 2008, are currently specified as follows:

(1) The Low-Income Home Purchase Goal: loans to borrowers with incomes no greater than 80 percent of the area median income (AMI).

(2) The Very Low-Income Goal: loans to borrowers with incomes no greater than 50 percent of AMI.

(3) Families in Low-Income Areas Goal:

- All families in low-income census tracts (median tract income no greater than 80 percent of AMI);
- Low- to moderate-income families (income no greater than 100 percent of AMI) in high-minority census tracts (tract minority population of at least 30 percent and median tract income less than 100 percent of AMI);
- Low- to moderate-income families (income no greater than 100 percent of AMI) in designated disaster areas.

Defining the goals and establishing numerical targets for each goal involve the complex task of (1) determining who the target population was, both in terms of income and location; and (2) setting the targets with reference to the performance and effort of the GSEs toward achieving the targets in previous years.

The goals have been revised several times since their early inception. During the period from 1993 to 2009, in particular, the numeric targets were periodically increased based on the premise that if the affordable housing goals were set at less than the primary market, they would not be very effective in achieving the GSEs' public purpose of promoting homeownership. To meet each of the goals and subgoals related to single-family home purchases, the percentage of mortgage loans purchased by the GSEs must exceed the benchmark established by the FHFA. Current benchmarks have remained unchanged since 2015. Specifically, since 2015 the benchmarks for the goals related to single-family home purchases have been:
(1) Low-Income Home Purchase Goal: 24 percent
(2) Very Low-Income Goal: 6 percent
(3) Families in Low-Income Areas Goal: 14 percent.

Proposed Changes to Current Benchmarks

The FHFA is proposing to expand the low-income home purchase goal from 24 percent to 28 percent and the very low-income goal from 6 percent to 7 percent. CAP commends this expansion as it will support the GSEs' mission to provide underserved low-income communities with access to affordable homeownership, an important housing policy priority at a time characterized by a severe lack of affordable housing in the nation. The newly proposed benchmarks have the potential of directing the conventional conforming market towards lending to underserved communities in a more aggressive way than in the past.

Change to the Structure of the Low-Income Areas Goal

The proposed rule would replace the low-income areas goal with two new area-based subgoals and corresponding benchmark levels:

- Minority Census Tracts Subgoal: Borrowers with income no greater than 100 percent of AMI in minority census tracts, that is census tracts that have a minority population of at least 30 percent and a median income of less than 100 percent of AMI (benchmark: 10 percent)
- Low-Income Census Tracts Subgoal (benchmark: 4 percent):
    - Borrowers (regardless of income) in low-income census tracts (with median income no greater than 80 percent of AMI) that are not minority census tracts;
    - Borrowers with incomes greater than 100 percent of AMI in low-income census tracts that are also minority census tracts

CAP applauds the proposed changes, as they are intended to advance racial equity by encouraging lending in communities of color which are still far behind non-Hispanic White communities in terms of access to homeownership and equity building. The changes also address concerns related to the displacement of low-income residents from low-income areas and high-minority areas by borrowers with incomes at or above 100 percent of AMI.

The affordable housing goals, however, were never and still are not specified in terms of the race or ethnicity of the borrower. With the exception of Goal 3, for which a minority presence in geographically targeted areas is mentioned, the affordable housing goals have continued to be based predominantly on economic factors. Where the goals explicitly address minority status, they do not distinguish among the racial and ethnic groups that make up minority neighborhoods.

In order to further improve access to affordable homeownership in communities of color and racial justice, CAP provides the following recommendations for future expansions and modifications of the affordable housing goals:

Recommendations

1) Incorporate race and ethnicity into the formulation of affordable housing goals. Fine-tuning the designation of underserved markets based on borrowers' and neighborhoods' race and ethnicity is critical in order to advance racial justice and social equity while closing the homeownership and wealth gaps between non-Hispanic Whites and specific communities of color. Several studies have shown that the GSEs have often tended to serve the least underserved of the underserved, especially in communities of color, and have tended to purchase loans in underserved areas with higher incomes compared with other geographically targeted areas and census tracts with the highest minority concentrations.[2] Even with the newly proposed changes focusing on communities of color, the GSEs may continue to be held accountable only tangentially on the basis of their performance in markets defined by their racial and ethnic composition. Because of the expansion of HMDA data and the disaggregation of borrowers' ethnicities, it is now possible to examine lending patterns not only to African Americans but also to other specific ethnic groups, especially among Latinos and Asians, that still lag behind the mainstream market in their access to mortgage credit and homeownership. For example, aggregated data have shown that Asian borrowers have mortgage lending outcomes that are very similar to those of non-Hispanic White borrowers. Yet, there are important disparities in access to mortgage lending among different groups of Asian descent because the Asian community at large is characterized by a significantly heterogeneous population based on national origins, immigration status, and socioeconomic characteristics. CAP encourages the FHFA to consider a shift of focus on

race and ethnicity in the future when modifying and expanding the affordable housing goals and defining underserved markets.

2) Include climate change and environmental justice considerations when setting affordable housing goal benchmarks and criteria.

No indicators related to environmental justice and climate change are currently included in the criteria adopted for the delineation of underserved areas to guide the GSEs in meeting their location-based affordable housing goals. Including climate change-related criteria in the formulation of affordable housing goals is critical from an environmental and racial justice perspective because communities of color – especially African American communities -- are typically located in neighborhoods suffering from low homeownership rates and proximity to environmental hazards due to decades of environmental racism, racially biased housing policies, redlining, and discriminatory lending practices.[3] Promoting mortgage lending in communities of color is important in order to close the racial homeownership and wealth gap. At the same time, the sole promotion of homeownership without environmental considerations could perpetuate the patterns of exposure of these communities to climate-change risks, which are also a recognized risk for the financial solvency of the GSEs.[4] The Enterprises hold more than 60 percent of mortgages on homes in areas outside the 100-year floodplain, where fewer homeowners are purchasing federally-backed flood insurance.[5] When homes in these areas are severely damaged, and homeowners are not current on flood insurance, cannot sustain repair costs, and are forced to abandon them, the Enterprises ultimately remain responsible for the damaged homes and taxpayers are left on the hook for mortgage defaults. Natural disasters that damage or destroy homes securing mortgage loans held by the Enterprises jeopardize the ability of borrowers to make principal and interest payments on mortgage loans, often leading to an increase in delinquency and default rates and loan loss severity in the Enterprises' books of business. The GSEs do not factor climate-change related risks into their guarantee fees. If the GSEs charged higher fees to guarantee mortgages on homes located in floodplains, however, they would disproportionally affect low-income communities and communities of color who are particularly vulnerable to the effects of climate change due to decades of systemic environmental racism.[6] By charging location-based higher fees, the Enterprises would raise the cost of borrowing in such underserved communities, and higher borrowing costs and insurance premiums, in turn, would discourage lending in those communities, depress home prices, and perpetuate decades-long patterns of disinvestment.

In January 2021, the Federal Housing Finance Agency (FHFA) issued a Request for Input (RFI) soliciting comments on how FHFA can best identify and address the current and future risks of climate change and natural disasters to the Government Sponsored Enterprises (GSEs) and the national housing finance market at large.[7] As recommended in CAP's response to the RFI, the FHFA should collect climate and environmental justice data to assess the risks climate change and natural disasters pose on the housing finance market as a whole, but especially in the most vulnerable communities – LMI communities and communities of color – in order to enhance mitigation activities, managed retreat, and boost investment and climate resilience where it is needed the most. Most importantly, one way to do that would be to include climate and environmental justice-related indicators in the formulation of the affordable housing goals in the future.

Thank you for the opportunity to submit comments in response to the proposed rule on the 2022-2024 Enterprise Housing Goals. Any questions regarding this comment letter or related issues should be directed to Michela Zonta at mzonta@americanprogress.org.

Sincerely,

Michela Zonta, Senior Policy Analyst, Housing Policy, Economic Policy, Center for American Progress

[1] This comment letter focuses specifically on single-family home purchases.
[2] See for instance Case, Bradford, Kevin Gillen, and Susan M. Wachter. 2002. "Spatial Variation in GSE Mortgage Purchase Activity," Cityscape 6 (1): 9–84; Bostic, Raphael, and Stuart A. Gabriel. 2006. "Do the GSEs Matter to Low-Income Housing Markets? An Assessment of the Effects of GSE Loan Purchase Activity on California Housing Outcomes," Journal of Urban Economics 59 (3): 458–475; Bhutta, Neil. 2009. GSE Activity and Mortgage Supply in Lower-Income and Minority Neighborhoods: The Effect of the Affordable Housing Goals. Working paper. Finance and Economics Discussion Series, 2009-3. Washington, DC: Federal Reserve Board, Divisions of Research and Statistics and Monetary Affairs; Zonta, Michela. 2015. "Do the GSEs Meet the Credit Needs of Underserved Communities of Color?" Cityscape 17 (3): 241-266.
[3] Michela Zonta and Zoe Willingham, "A CRA To Meet the Challenge of Climate Change: Advancing the Fight Against Environmental Racism." (Washington, Center for American Progress, 2019), available at https://www.americanprogress.org/issues/economy/reports/2020/12/17/493886/cra-meet-challenge-climate-change/. See also Rachel Morello-Frosch and Bill M. Jesdale, "Separate and unequal: residential segregation and estimated cancer risks associated with ambient air toxics in U.S. metropolitan areas," Environmental Health Perspectives 114 (3) (2006): 386–393, available at https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1392233/pdf/ehp0114-000386.pdf; Jasmine Bell, "5 Things to Know About Communities of Color and Environmental Justice," Center for American Progress, April 25, 2016, available at https://www.americanprogress.org/issues/race/news/2016/04/25/136361/5-things-to-know-about-communities-of-color-and-environmental-justice/; NAACP, "Environmental and Climate Justice," available at https://www.naacp.org/issues/environmental-justice/ (last accessed November 2020); Christopher W. Tessuma and others, "Inequity in consumption of goods and services adds to racial-ethnic disparities in air pollution exposure," Proceedings of the National Academy of Sciences of the United States of America 116 (13) (2019): 6001–6006, available at https://www.pnas.org/content/pnas/116/13/6001.full.pdf; Natalie Colarossi, "10 egregious examples of environmental racism in the US," Insider, August 11, 2020, available at https://www.insider.com/environmental-racism-examples-united-states-2020-8.
[4] Amine Ouazad and Matthew E. Kahn, "Mortgage Finance and Climate Change: Securitization Dynamics in the Aftermath of Natural Disasters," Review of Financial Studies, forthcoming, available at https://www.dropbox.com/s/967r5wgfz0o7jhd/paper.pdf?dl=0.
[5] Zack Colman, "How climate change could spark the next home mortgage disaster," Politico, November 30, 2020, available at https://www.politico.com/news/2020/11/30/climate-change-mortgage-housing-environment-433721.
[6] Connor Maxwell, "America's Sordid Legacy on Race and Disaster Recovery," Center for American Progress, April 5, 2018, available at https://www.americanprogress.org/issues/race/news/2018/04/05/448999/americas-sordid-legacy-race-disaster-recovery/.
[7] https://www.fhfa.gov/Media/PublicAffairs/Documents/Climate-and-Natural-Disaster-RFI.pdf.