February 25, 2022

Acting Director Sandra L. Thompson
Federal Housing Finance Agency
400 Seventh Street, SW 10th Floor
Washington, DC 20219

Re: RIN-2590-AB16 – Capital Planning and Stress Capital Buffer Determination Proposed Rule

Partners for Rural Transformation (PRT) appreciates the opportunity to respond to the Federal Housing Finance Agency's (FHFA) Request for Comment on the Notice of Proposed Rulemaking regarding the Capital Planning and Stress Capital Buffer Determination Proposed Rule.

PRT represents six Community Development Financial Institutions (CDFIs) that serve three-quarters of the country's persistent poverty counties, communities that are overwhelmingly rural, and people of color. With headquarters in the Mississippi Delta, Appalachia, Native American communities, the Deep South, the Rio Grande Valley, and regions in the Rural West, PRT has a unique lens on the range of challenges these communities face, solutions to them, and deep connections with diverse local leaders who are dedicated to creating change.

Persistent poverty counties are those which have experienced poverty rates exceeding 20% for more than 30 years. This reality is rooted in a deep legacy of efforts to exclude groups from opportunity—by race and place. In the rural persistent poverty counties served by PRT members, 43% of residents are people of color.[1] Regions of deep and persistent poverty were formed by policy choices that facilitated the acquisition of wealth and power among a select group through the enslavement of Africans and African Americans in the Mississippi Delta and Black Belt, the taking of land and life from tribal nations and Latinx people throughout the country and along the U.S./ Mexico border, and the extraction of natural resources from Appalachia.[2] Of the nation's 395 persistent poverty counties, 8 out of 10 are rural, and 4 out of 10 are counties where most residents are people of color.

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[1] Urban Institute, "Capturing Shared Impacts of the Partners for Rural Transformation," Oct. 12 2021, https://www.urban.org/research/publication/capturing-shared-impacts-partners-rural-transformation

[2] For more background and context on rural areas of persistent poverty, see Partners for Rural Transformation, "Transforming Persistent Poverty in America: How Community Development Financial Institutions Drive Economic Opportunity," 2020, https://www.ruraltransformation.org/wp-content/uploads/2020/03/Transforming_Persistent_Poverty_in_America_-_Policy-Paper-PRT-_FINAL.pdf

Working through and with the communities, members of PRT deeply understand the overarching context of persistent poverty counties— regions that have been historically excluded and exploited by both place and race. For rural communities, particularly communities of color, the lack of financial institutions presents significant barriers to economic opportunity. The areas of rural persistent poverty are even further underinvested in, embedded in the public policy choices guided by institutional racism, and made over decades. For decades in rural persistent poverty areas, CDFIs have filled this gap and have addressed the employment and housing, banking, and infrastructure needs of local people and places.

Due to the lack of banking institutions in rural areas of persistent poverty, homeownership is often out of reach for many of these communities, especially communities of color. Homeownership is one of the most significant paths to accumulate and generate wealth, which is a vital indicator of improving the quality-of-life metrics such as economic mobility, health, and employment. However, the legacy of redlining created and re-enforced patterns of residential segregation resulting in the under-development and exploitation of communities of color. Discriminatory housing policies have exacerbated the racial wealth gap, particularly, for example, in the Deep South, and these prejudicial lending practices have undermined the ability of Black Americans to achieve homeownership at the same rate as their White counterparts.

We echo the views of the statement from the National Fair Housing Alliance urging FHFA to adopt a regulatory capital framework to advance racial equity and that "ensuring a fair and equitable national housing finance market is consistent with FHFA's obligation to Affirmatively Further Fair Housing."[3] We agree that FHFA needs to act swiftly to move the GSEs toward more significant equity to build out their crucial public mission, including increasing credit access for borrowers of color and other protected groups. Additionally, the Enterprises should consider further opportunities in promoting homeownership in rural areas of persistent poverty, particularly for Black, Latino and Indigenous families. PRT provides the following responses in hopes that they will help inform FHFA's decision-making.

Strengthening GSEs' Duty to Serve (DTS) Definition

The concept of Duty to Serve and the recognition of the need for capital to support homeownership in these underserved communities and regions is critically important, now more than ever, as the pandemic has shed a harsh light on long-standing preexisting inequities in our country.

Unfortunately, despite efforts to reach these communities through the GSE's sincere intent and stated commitment, there are areas for improvement. The FHFA's colonia definition, for instance, is critically important not only for the GSEs but also for numerous federal programs and regulations. There are 2,600 colonias across the country; however, the way colonias are

[3] NFHA and Advocates Urge the Federal Housing Finance Agency to Adopt a Regulatory Capital Framework That Promotes Racial Equity, Nov. 23, 2021, https://nationalfairhousing.org/nfha-and-advocates-urge-the-federal-housing-finance-agency-to-adopt-a-regulatory-capital-framework-that-promotes-racial-equity/

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categorized, it becomes highly nebulous on what is and what is not a colonias. Fannie Mae and the Housing Assistance Council (HAC) partnered in 2020, and insights gained from their research have led to a greater understanding of the colonias region and potential investment opportunities.

To accurately capture the majority of colonias, FHFA should adopt HAC's Colonia Investment Area definition. The Rio Grande Valley, for instance, contains over half of all recognized colonias. While these colonias fall under HAC's judicious Colonias Investment Area definition, only 23 % of RGV colonias qualify as "rural" under DTS. Colonias Investment Areas should be adopted by DTS as a designation apart wholly divorced from a rural/urban distinction, recognizing colonias as underserved areas in their own right.

Products Expansion to Support Persistent Poverty Communities
We encourage FHFA to consider a robust down payment assistance initiative to reach High Needs Regions, encourage GSEs to purchase mortgage loans made by CDFIs with successful track records of lending to borrowers in persistent poverty communities and create new products for CDFIs that fits the needs of our borrowers.

Notably, the Fannie Mae Duty to Serve plan includes deploying a down payment assistance initiative to expand homeownership. While it appears to be singular, a robust down payment assistance initiative should be rolled out in every High Needs Region, including Appalachia, the Lower Mississippi Delta, U.S. / Mexico border, and Native communities. HOPE, a PRT member and CDFI serving the Deep South, is an excellent example of how down payment assistance can be targeted and deployed to the areas of most need. Between 2019 and 2020, HOPE provided grants to 257 Mississippians, of which 90% went to Black households and a quarter was in rural communities.

Importantly, GSEs should provide deeper outreach and pair the down payment assistance program under consideration to complement a 100% Loan to Value (LTV) product. Borrowers with credit histories to qualify for a mortgage are frequently hampered by the lack of assets that would facilitate having the ability to make a down payment and cover closing costs. As one example, one of HOPE's members, who participated in the Down Payment Assistance Program described above, had a solid credit history and stable employment. However, due to a divorce, the borrower neither had the resources needed for a down payment nor the savings to cover the mortgage closing costs. Fortunately, HOPE has a portfolio product that allows a borrower to finance up to 100% of the Loan to Value of the mortgage. With this product, combined with flexible down payment assistance to cover closing costs, the borrower could move from an applicant to a homeowner.

In addition, PRT and partners have proven successful track records for reaching underbanked communities and providing mortgage loans for communities of color. FHFA should purchase these loans from CDFIs, which would result in more mortgages that can be made to these persistent poverty communities. CDFIs have the flexibility and deep connections to their

communities. They, therefore, can meet their needs through nontraditional but effective mortgage products designed to meet the structural barriers that exclude homeowners, particularly homeowners of color, from the mortgage market in the first place. HOPE, for example, originates mortgage loans through its innovative Affordable Housing Program (AHP). Between 2016 and 2020, HOPE originated 749 AHP mortgages, of which seventy-eight percent were Black borrowers, fifty-seven percent were women-headed households, and eighty-nine percent were first-time homeowners. Low charge-off rates reinforce the success of this product. Over the last five years, the annual net charge-off rate has never gotten higher than 67 basis points. Yet, despite this success, neither Fannie Mae nor Freddie Mac purchases these loans.
This program is effective and is an impressive example of how CDFIs like PRT members can help build wealth for generations to come within their communities. The GSEs can and should be purchasing these loans from CDFIs because these originations are a proven way to close the homeownership gap in America.

Further, CDFIs need loan products that fit the unique people and places we serve. National lending products tend to serve white and middle-income communities and do not serve or reflect the extraordinary diversity of the communities we support. We recommend the GSEs create a CDFI preferred product or provide flexibility within current products to meet these high-needs rural and persistent poverty areas based on these areas' predominantly low area median incomes. Examples of potential characteristics of loan products that CDFIs could use include a four percent down payment assistance loan that is deferred until a sale or in years 31 and 32 of the mortgage. PRT also recommends increasing the seller contribution from three percent to six percent, similarly to FHA loans.

Capitalizing CDFIs with proven track records of serving persistent poverty communities
GSE should specifically invest in CDFIs with long-standing track records and high credibility, such as those represented by the Partners for Rural Transformation, and support the development, implementation, and expansion of innovative mortgage products at scale across persistent poverty regions. The Duty to Serve plans should also include provisions to provide capital and operating support to minority-serving CDFIs – CDFIs led by people of color and/or with long track records of providing loans to communities of color at significant levels.

CDFIs, long on the front lines of meeting the financial needs of underserved communities, continue to serve as important drivers of economic mobility in rural economies and among people of color. For decades, CDFIs in some of the most economically distressed regions of the country have been addressing the employment and housing, banking, and infrastructure needs of local people and places. They also model solutions that work and can be brought to scale with either increased investment or replication by other actors in the financial system. Despite evidence of success by CDFIs located in and reaching the most economically distressed communities, resources lag compared to other CDFIs. For example, even though CDFIs led by people of color have performed better in getting the communities and borrowers of color, which often have the greatest need for financial services, these CDFIs have historically had the least number of resources to do this work.

The wealth gap increases, particularly in the rural and Indigenous persistent poverty communities. Working with and through rural and Native CDFIs is critical for the GSEs to increase impact and investment, meeting the intent of Duty to Serve.

PRT appreciates the continued engagement of FHFA and the GSEs around this work. As mission-driven lenders across the country, we know the work happening every day in Appalachia, the Deep South, Indian Country, the Rural West, and the Colonias is valuable to the continued success of our nation and building that American dream. These regions have been under-resourced and undervalued for far too long. We hope that with empowerment through FHFA, the GSEs will continue to see the actual value of these markets and the people they represent and will support the Partners of Rural Transformation and our fellow CDFI's to provide the expertise and engagement needed to bring real impact.

Sincerely,

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