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Ms. Ellen S. Bailey
Managing Associate General Counsel
Federal Housing Finance Agency
Constitution Center, (OGC) Fourth Floor, 400 Seventh Street SW
Washington, DC 20219

Re: Regulatory Review [No. 2023–N–5]

06/13/2023

To Associate General Counsel Bailey:

The League of Southeastern Credit Unions ("LSCU") representing 311 credit unions with a collective asset size over $170 billion is always looking for items to comment on that might have an impact on our member credit unions. Our members serve millions of people, many of whom are low- and moderate-income borrowers. We are committed to providing our members with access to affordable housing and as such, we believe an open flow of information between the Federal Housing Finance Agency ("FHFA") and the financial institutions of the United States is important. The FHFA is the main government body that oversees many of the administration's affordable housing programs. We are in support of the FHFA's mission to give everyone access to affordable housing, however, we have some concerns regarding the way by which the FHFA has been executing this mission to expand affordable housing.

To start, we would like to voice our opposition to the FHFA's forthcoming recalibration of the fee structure for Loan-Level Price Adjustments ("LLPAs"). On May 1, the proposed changes lowered fees for some borrowers while drastically increasing them for others. The revised fee structure fundamentally alters the risk-reward balance, as it considerably reduces the gap between low and high credit score borrowers. For instance, we appreciate that the changes will benefit a homebuyer with a 'fair' credit score, reducing their LLPA from 2.75% to 1.5% for a down payment of 5%.[1] However, we have deep concerns about the other side of the equation. Homebuyers with 'very good' credit scores, providing a more substantial down

[1] Picchi, A. (2023, May 1). *Mortgage fee structure for some homebuyers is changing this month. Here's how.* CBS News. Retrieved from https://www.cbsnews.com/news/mortgage-fee-structure-2023-llpa-credit-score-buying-a-home/

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payment of 20%, will now encounter a fee hike. Their LLPA will increase from 0.5% to 1%, doubling their fees on a $200,000 home purchase to $2,000. This unfair hike on diligent borrowers who have worked hard to maintain their high credit scores sends the wrong message and is detrimental to encouraging responsible borrowing habits. We believe that this new approach doesn't reward creditworthiness as it should, thus we stand against these changes.

The FHFA and the Internal Revenue Service ("IRS") could enhance affordable housing availability by working together to expand the Low-Income Housing Tax Credit ("LIHTC") instead of altering LLPA levels. The LIHTC program is a critical tool for creating and preserving affordable rental housing, as it provides tax incentives for private or corporate investors to develop such housing. Increasing the allocation of these tax credits would likely incentivize more developers to construct or rehabilitate more affordable housing units. This could include changes such as raising the per capita credit allocation, allowing more credits for certain targeted developments, or creating new incentives for extremely low-income housing. Expanding the LIHTC could lead to an increase in the supply of affordable housing and directly address the needs of lower-income families. On the other hand, altering the LLPA levels tends to affect the demand side by making borrowing more or less expensive for certain groups of homebuyers. We are opposed to this latter approach as it alters the risk composition of mortgage securities on the secondary market leading to perverse incentives that can create dangerous amounts of risk in the financial system, such as was seen during the 2008 Financial Crisis. While modifying LLPAs may potentially affect the accessibility of homeownership for some individuals, it doesn't directly address the need for more affordable housing stock.

The HOME Investment Partnerships Program, administered by the U.S. Department of Housing and Urban Development ("HUD"), is another program the FHFA should consider when trying to meet its affordable housing goals. The program is specifically designed to increase the supply of decent, affordable housing for low- and very low-income families. However, as it currently stands, the impact of this program could be amplified through effective collaboration with the FHFA. One approach to this collaboration could involve policy coordination. The FHFA could work closely with HUD to ensure the regulations and guidelines set for Fannie Mae and Freddie Mac align seamlessly with the goals of the HOME program. Such coordination could lead to a more efficient and impactful implementation of the program, resulting in a more considerable availability of affordable housing units. Furthermore, the FHFA could make adjustments to the lending standards for mortgages purchased by Fannie Mae and Freddie Mac to facilitate HOME-assisted buyers. Relaxed down payment requirements, credit score thresholds, or debt-to-income ratios for HOME-assisted units could increase the accessibility of these units to a broader segment of the population. Lastly, the FHFA could institute specific affordable housing goals for Fannie Mae and Freddie

Mac related to loans for homes developed or rehabbed with HOME funds. This action would encourage lenders to originate loans for these properties, further driving the creation and preservation of affordable housing.

The affordable housing crisis in America is a complex, multifaceted issue that's been evolving over the past several decades. At its core, the crisis is a supply and demand problem: there is a significant lack of affordable housing units relative to the number of households that need them. Low-income families are disproportionately affected, as rising housing costs, stagnating wages, and a lack of federal housing assistance have combined to create a scenario in which many people are spending a high percentage of their income on housing, often for substandard living conditions. Adding to this is the issue of income inequality. The wealth gap in the U.S. has been widening for years, leading to an increasing divide between those who can afford housing and those who Can not This disparity is not just in terms of home ownership but also access to safe, affordable rental units. Meanwhile, the FHFA is proposing changes to the LLPA levels. The proposed changes would lower fees for some borrowers and increase them for others. However, this approach primarily targets the demand side of the equation by adjusting borrowing costs for specific groups of homebuyers based on their creditworthiness. While these changes may indeed affect home-buying affordability for certain individuals, they do not directly address the overarching issue of the affordable housing supply shortage. The supply-demand imbalance, which is fundamental to the affordable housing crisis, is not something that can be resolved merely by adjusting borrowing costs. Increasing the supply of affordable housing units would require significant investment in construction, zoning reform to allow for more high-density housing, and more funding for housing assistance programs. Moreover, the proposed LLPA changes could unintentionally disincentivize responsible borrowing, as individuals with higher credit scores could end up paying more. Thus, it is essential to consider these potential repercussions and focus on more direct and comprehensive solutions to address the affordable housing crisis in America.

The League of Southeastern Credit Unions strongly urges the FHFA to reconsider the proposed changes to the LLPA and to instead focus on more comprehensive strategies that directly tackle the root cause of the affordable housing crisis. We propose a stronger emphasis on collaboration with other government bodies like HUD and the IRS to enhance the efficiency and impact of existing programs such as the HOME Investment Partnerships Program and the Low-Income Housing Tax Credit. The path to affordable housing is not a one-way street; it requires thoughtful policymaking that not only considers how we can make homeownership more accessible, but also how we can increase the supply of affordable housing and incentivize responsible borrowing. Above all, it requires a firm commitment to keeping the lines of communication open among all stakeholders, ensuring we can collectively work towards a solution that serves the needs of all Americans. We at the LSCU are committed to this mission and are ready to engage in meaningful dialogues and partnerships that will help build a more equitable and affordable housing landscape. We believe that together, we can create a housing market that is fair, accessible, and sustainable for all. Thank you for your consideration.

We would like to thank the FHFA for giving us the opportunity to comment on this matter and if the FHFA should have any questions regarding this matter in the future, we are open to discussing it further.

Sincerely,
David Pace
Manager of Regulatory Advocacy