Center for American Progress

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RE: The Federal Housing Finance Agency's proposed housing goals for Fannie Mae and Freddie Mac for 2012-2014

July 26, 2012

Mr. Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA49
Federal Housing Finance Agency
Eighth Floor, 400 7th St. SW
Washington, D.C. 20024

Dear Mr. Pollard:

Thank you for the opportunity to comment on the Federal Housing Finance Agency's proposed Enterprise Housing Goals for 2012-2014. Over the past two decades, the housing goals have helped Fannie Mae and Freddie Mac expand safe and affordable mortgage credit to worthy borrowers often underserved by the private market, namely low-income families, communities of color, and first-time homebuyers. We commend FHFA's efforts to maintain, monitor, and improve these critical policy tools throughout the period of conservatorship.

Since 2008 the Center for American Progress has sponsored the Mortgage Finance Working Group, a group of housing finance experts, affordable housing advocates, and leading academics convened to better understand the causes of the mortgage crisis and create a framework for the future of the U.S. mortgage system. In January 2011 the Working Group released "A Responsible Market for Housing Finance," its proposal for reform of the secondary mortgage market.[1]

Our plan rests upon five principles that we believe must guide any effort to wind down Fannie Mae and Freddie Mac, transition to a new system, and bring private capital back to the mortgage market. One of those principles is to ensure that reasonably priced financing for both homeownership and rental housing is available to all creditworthy borrowers.[2]

Designing a new system of U.S. housing finance is well beyond FHFA's congressional mandate. But the agency can prepare for the transition today by building and maintaining a durable framework for GSE reform, including flexible provisions to promote access and affordability. While it's unlikely the numerical goals in place today will carry over to the system of the future, FHFA's work on the housing goals demonstrates its commitment to access and affordability, which we appreciate.

The case for promoting access and affordability through Fannie Mae and Freddie Mac

A well-functioning mortgage market provides affordable credit to all qualified households, regardless of race, ethnicity, geographic location, or socioeconomic status. Unfortunately, history has shown that the market leaves out or disserves large cohorts of borrowers, including but not limited to low- and moderate-income households and communities of color,[3] even when those households are candidates for homeownership using traditional underwriting and long-term, fixed-rate mortgage products.[4]

There is ample evidence that serving the market broadly, including households with lower incomes, can be done profitably and soundly.[5] Moreover, all of us inevitably pay the price when some segments are underserved. New homeowners successfully entering the housing market and then climbing the housing ladder, for example, are essential to robust housing supply and demand.

If public resources are used to support the mortgage market—as is the case today with Fannie Mae and Freddie Mac, as well as most plans for future systems of U.S. housing finance—those resources should support some public purpose. The housing goals do just that by ensuring products remain available at reasonable prices in all markets, rather than creating a dual market in which a borrower's financing channel is largely determined by race, ethnicity, or class.

While our plan for the future of housing finance does not specify a particular mechanism for promoting access and affordability, some options would include explicit prohibitions against discrimination, "anti-creaming" requirements to mirror the broader housing market, affirmative targets for lending to certain market segments, special funds to expand access to underserved markets, or some blend of these policy tools.

Today, however, the market relies heavily on fair and effective Enterprise housing goals. Until FHFA receives new instructions from Congress, the agency must continue to define and enforce housing goals that promote this public purpose while supporting financial soundness and a broader recovery in the housing market.

FHFA should not reduce the low-income home purchase goals

FHFA is proposing some significant changes to the housing goals for low-income and very low-income families. Under current benchmarks, 27 percent of purchase money mortgages backed by each Enterprise is expected to go to low-income families (earning no more than 80 percent of area median income), 8 percent is expected to go to very low-income families (earning no more than 50 percent of area median income), and 13 percent is expected to go to borrowers in low-income census tracts, high-minority census tracts, or federally declared disaster areas.[6] The proposed rule would lower the low-income benchmark to 20 percent, the very-low-income benchmark to 7 percent, and the underserved neighborhood benchmark to 11 percent.[7]

FHFA's rationale for lowering these benchmarks is unclear. The agency is correct when it says that "any goal-setting must be closely linked to putting the Enterprises in sound and solvent condition." There is no evidence, however, that these low-income loans meaningfully contributed to either Enterprise's losses since conservatorship began, or that closing off creditworthy low-income borrowers will meaningfully improve either Enterprise's financial condition.

Critics of government support to the mortgage market often point to the housing goals as a primary cause of the recent crisis. They're wrong. Independent analyses from the Financial Crisis Inquiry Commission,[8] the Federal Reserve,[9] the Federal Reserve Bank of St. Louis,[10] the UNC Center for Community Capital,[11] and other notable academics[12] have concluded that the goals at Fannie and Freddie had little to no impact on the Enterprises' massive losses, let alone the broader proliferation of subprime mortgages during the housing bubble.

On the contrary, for decades the low-income and very-low-income housing goals have helped preserve homeownership opportunities for families at the bottom rungs of the ladder. Without maintaining a sufficiently high standard, many of these lower-income families will be diverted either out of the market entirely or to the Federal Housing Administration, which is already backing an unprecedented portfolio of mortgage loans.[13]

We are glad to see FHFA maintain and expand Enterprise support for affordable rental housing. The agency can do more, however, to promote the preservation of existing affordable housing through the Enterprise multifamily goals. We also recommend that FHFA prohibit goals credit for any multifamily transaction that eliminates state or federal affordability restrictions, including certain conversion loans. On this topic, we support the official comments and recommendations submitted by the National Housing Conference.

Conclusion

In the past year FHFA has announced a number of steps to reduce the role of the Enterprises in the mortgage market. We commend the agency's hard work at a time of little action or guidance from Congress. We caution, however, against withdrawing government support to the most vulnerable markets further before new protections are put in place. As FHFA proceeds with its plans, it should preserve the value of the government guarantee for those borrowers who need it most.

Thank you again for the opportunity to comment. If you have any questions or require additional information, please do not hesitate to contact me at 202.481.8158 or jgriffith@americanprogress.org.

Sincerely,

John Griffith
Policy Analyst
Center for American Progress

Endnotes

1 The Mortgage Finance Working Group, "A Responsible Market for Housing Finance" (2011).

2 The five guiding principles in the Working Group's plan are liquidity, stability, transparency and standardization, access and affordability, and consumer protection. For more information on then plan, see http://www.americanprogress.org/issues/2011/01/responsible_market.html.

3 Raphael W. Bostic, "The Role of Race in Mortgage Lending: Revisiting the Boston Fed Study." Working Paper (Federal Reserve Board of Governors, 1996).

4 Lei Ding and others, "Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models" Working Paper (Center for Community Capital, University of North Carolina Chapel Hill, 2010).

5 David M. Abromowitz and Janneke Ratcliffe, "Homeownership Done Right" (Washington: Center for American Progress, 2010); Roberto G. Quercia, Allison Freeman, and Janneke Ratcliffe, *Regaining the Dream: How to Renew the Promise of Homeownership for America's Working Families* (Washington: Brookings Institution Press, 2011).

6 Federal Housing Finance Agency, "2010-2011 Enterprise Housing Goals; Enterprise Book-entry Procedures" (12 CFR Parts 1249, 1282, RIN 2590-AA26).

7 Federal Register, "2012-2014 Enterprise Housing Goals: A Proposed Rule by the Federal Housing Finance Agency" (12 CFR 1282, RIN: 2590-AA49).

8 Financial Crisis Inquiry Commission, "Preliminary Staff Report: Securitization and the Mortgage Crisis" (2010).

9 Neil Bhutta, "GSE Activity and Mortgage Supply in Lower-Income and Minority Neighborhoods: The Effect of the Affordable Housing Goals," Finance and Economics Discussion Series Paper (Washington: Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, 2009).

10 Rubén Hernández-Murillo, Andra C. Ghent, and Michael T. Owyang, "Did Affordable Housing Legislation Contribute to the Subprime Securities Boom?" Working Paper 2012-005 (Federal Reserve Bank of St. Louis, 2012).

11 Kevin Park, "Fannie, Freddie and the Foreclosure Crisis" (Chapel Hill, NC: Center for Community Capital at University of North Carolina Chapel Hill, 2010).

12 Adam J. Levitin and Susan M. Wachter, "Explaining the Housing Bubble," *Georgetown Law Journal* 100 (4) (2012): 1177–1258.

13 "FHA Issues Annual Financial Status Report to Congress," available at http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2011/HUD-No.11-270 (last accessed July 2012).