NATIONAL HOUSING CONFERENCE

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August 31, 2017

Alfred M. Pollard,
Office of General Counsel
Attention: Comments/RIN 2590–AA65
Federal Housing Finance Agency
Eighth Floor, 400 Seventh Street SW
Washington, DC 20024

Re: Comment on Enterprise housing goals, RIN 2590-AA81

The National Housing Conference (NHC) appreciates the Federal Housing Finance Agency's (FHFA) revision and enforcement of the housing goals for Fannie Mae and Freddie Mac (the Government Sponsored Enterprises or GSEs). Families and individuals of modest means struggle with burdensome housing costs nationwide, both as owners and renters; in 2015, 18.8 million owner and renter households faced severe cost burden, paying 50 percent or more of their income for housing costs.[1] GSE financing of affordable rental and owned housing helps private markets meet housing need in America, connecting with government help and nonprofit efforts as part of the overall strategy. From that perspective, we offer several comments on the proposed rule.

NHC strongly supports measurable housing goals for the GSEs as an essential tool for focusing effort to promote affordable housing. In summary (with more detail on each below), we suggest FHFA:

1. Continue to use the hybrid model of the benchmark method and market performance to determine single family goals.
2. Encourage the GSEs to do more to reach creditworthy low-income homebuyers.
3. Apply strong but achievable goals for multifamily affordable housing and small multifamily.

I. About the National Housing Conference

Everyone in America should have equal opportunity to live in a quality, affordable home in a thriving community. The National Housing Conference educates decision makers and the public about housing policies and practices to move housing forward together. NHC convenes and collaborates with our diverse membership and the broader housing and community development sectors to advance our policy, research and communications initiatives to effect positive change at the federal, state and local levels. Founded in 1931, we are a nonpartisan, 501(c)3 nonprofit organization. NHC's research team operated as the Center for Housing Policy until the organizations merged in 2013.

II. Housing Goals

NHC offers comments on the forecasting supporting the single family housing goals, the proposed single family goals themselves, the multifamily goals, and the small multifamily sub-goals.

[1] Harvard Joint Center for Housing Studies. "2016 State of the Nation's Housing." Page 5. Retrieved from: http://www.jchs.harvard.edu/research/state_nations_housing.

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A. Single family forecasting

NHC agrees with continuing to use the hybrid model with both the benchmark method and market performance method. This approach balances inherent limitations of forecasting with the need for meaningful incentives. Having both tests in place acknowledges the fundamental uncertainty of the forecasts on which the goals rely and provides a framework through which FHFA can apply a fair evaluation.

In recent years, portfolio lending has increased and while FHFA accounts for portfolio lending in its understanding of the single family market, it may need to consider adjusting its calculations to account for this change in the mix of the single family market.

B. Single family goals

NHC supports having housing goals to serve low- and moderate-income homebuyers, and we encourage FHFA to use the goals to improve the provision of affordable housing to underserved groups. In the wake of the Great Recession, the mortgage finance markets have overcorrected, in part by relying on overly simple underwriting limits and broad limitations that exclude many responsible low- and moderate income households from homeownership. This environment of constrained mortgage lending makes the subgoals especially important.

While loan approval rates are up compared with 2004 levels, loan applications are down significantly, and the falloff has been most dramatic for black and Hispanic applicants.[2] Among blacks and Hispanics, loan applications saw a steep decline of 77% and 76%, respectively, compared with a 45% drop among whites from 2004-2015.[3] Similarly, homeownership rates have fallen for black households: in 2016, 41.3% were homeowners, a 16% decline compared with 2004.[4] The homeownership rate for Hispanic households is 47%. These rates compare to a 71% rate for white households. [5] The denial rate for Black applicants also continues to be the highest among people of color.[6] These data points illustrate that minority homebuyers continue to struggle to access homeownership.

NHC applauds Fannie Mae's HomeReady and Freddie Mac's Home Possible programs that aim to reach low-income borrowers. Higher down payments are more common than they were before the Great Recession, and, since 2008, low credit score borrowers have had to make larger down payments on average than borrowers with higher credit scores.[7] Low down payment programs help credit-worthy low-income borrowers to building wealth through homeownership, and NHC appreciates the GSEs' leadership in this area. Among the steps they have taken, the change to the underwriting standards to allow income from non-borrower household members as well as requiring low down payments is helpful for low-income homebuyers. Allowing mortgage insurance payments to be reduced at 90% LTV and eliminated at 80% LTV are appropriate changes, and requiring online homeownership education strengthens outcomes for homebuyers and the GSEs. [8] Much research on loan

[2] Fry, Richard and Brown, Anna. "In a Recovering Market, Homeownership Rates Are Down Sharply for Blacks, Young Adults." December 2016. Pew Research Center. Retrieved from: : http://www.pewsocialtrends.org/2016/12/15/in-a-recovering-market-homeownership-rates-are-down-sharply-for-blacks-young-adults/
[3] Ibid.
[4] Ibid.
[5] Ibid.
[6] Carr, Jim, Zonta, Michaela, McKinney, Fred and Jaynes, Gerald. "State of Housing in Black America". 2016. National Association of Real Estate Brokers. Available at: http://www.nareb.com/site-files/uploads/2016/08/NAREB-SHIBA-REPORT-2016-final.pdf
[7] Fry, Richard and Brown, Anna. "In a Recovering Market, Homeownership Rates Are Down Sharply for Blacks, Young Adults." December 2016. Pew Research Center. Available at: http://www.pewsocialtrends.org/2016/12/15/in-a-recovering-market-homeownership-rates-are-down-sharply-for-blacks-young-adults/
[8] HUD Office of Policy Development & Research. "Pressing Challenges in Housing Finance: Credit Access and Seniors' Mortgage Debt" Spring 2016. *Evidence Matters*. Available at: https://www.huduser.gov/portal/periodicals/em/spring16/highlight1.html

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performance and borrower qualifications has been done and shows that modestly lower down payments and credit scores do not in and of themselves result in excessive additional defaults.[9]

Despite good efforts, both Fannie Mae and Freddie Mac have struggled to consistently meet their low-income home purchase and very low-income home purchase goals. While keeping the low-income home purchase and very low-income home purchase goals at the same levels in 2018-2020 as in 2015-2017 seems appropriate, given the GSEs performance in these areas, NHC urges FHFA to hold Fannie Mae and Freddie Mac accountable for reaching these goals. The existence of the low down payment programs is not enough; the GSEs can do more to encourage the use of the low down payment products.

To increase access to homeownership for underserved groups, the GSEs need to do more outreach and education about their low down payment products and encourage lenders to serve these populations. The GSEs need to ensure that their marketing and outreach reaches the desired populations and the primary market lenders serving those populations.

The GSEs could also encourage more state housing agencies to pursue risk-sharing programs like the one MassHousing has entered into with Fannie Mae. This risk-sharing program allows the housing finance agency to originate loans without mortgage insurance. Borrowers are charged a slightly higher interest rate that is passed onto Fannie Mae as a guarantee fee instead of mortgage insurance. MassHousing takes on the early payment default risk; these savings can cancel out the cost of the higher interest rate. [10]

NHC supports the low down payment products and appreciates how the GSEs have made efforts to strengthen and improve them. The GSEs have shown willingness to make the products more flexible to meet the needs of underserved borrowers. They should continue to explore innovative ways they can more effectively serve low-income homebuyers and also do a better job of publicizing successes of those efforts, either at the GSE or partner level. Sharing data on the growth of the low down payment products would also be helpful for market participants trying to identify business opportunities in underserved markets and stakeholders in evaluating the GSEs in their efforts to reach underserved borrowers.

C. Multifamily goals

About 4.6 million multifamily units are needed by 2030 to meet the demand for rental housing. Harvard's Joint Center for Housing Studies found that only 9 million new housing units were added in the past 10 years, the lowest ever in a 10-year period. Rental vacancy rates remain low, which keeps costs high for renters. Multifamily units under construction tend to be high-end developments clustered in a few urban areas, which limits their impact on the supply of housing affordable to lower income households.[11]

This need for multifamily housing, especially affordable multifamily housing, highlights the importance of the GSEs liquidity for multifamily financing. In terms of the numerical goals for 2018-2020, consider the Enterprises' past performance. Fannie Mae and Freddie Mac have consistently exceeded their numerical goals for multifamily affordable housing. In 2016, Freddie Mac surpassed its housing goals by over 100,000 units, and Fannie Mae surpassed its goal by over 50,000 units. For very low-income units, Fannie exceeded 60,000 units each year during 2012-2016, and Freddie exceeded this level in 2012, 2015, and 2016. Both GSE's multifamily businesses

[9] Carr, Jim, Zonta, Michaela, McKinney, Fred and Jaynes, Gerald. "State of Housing in Black America". 2016. National Association of Real Estate Brokers. Available at: http://www.nareb.com/site-files/uploads/2016/08/NAREB-SHIBA-REPORT-2016-final.pdf

[10] HUD Office of Policy Development & Research. "Increasing Access to Sustainable Mortgages for Low-Income Borrowers" Spring 2016. *Evidence Matters*. Available at: https://www.huduser.gov/portal/periodicals/em/spring16/highlight3.html

[11] McCargo, Alanna. "These four trends in rental housing have big implications for the growing affordable housing crisis" July 2017. Urban Institute. Available at: http://www.urban.org/urban-wire/these-four-trends-rental-housing-have-big-implications-growing-affordable-housing-crisis

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have increasingly financed units affordable to low- and very low- income renters. In short, the goals have been eminently achievable.

As NHC has discussed in earlier comment letters, the goals are only meaningful incentives if they are achievable. The goals should encourage the GSEs to create an affordable multifamily business that is profitable and therefore sustainable and expandable, not simply a cost of doing business in multifamily more broadly. An unrealistic goal can distract from sustainability, or, in the extreme, set up a GSE for failure. The GSEs should sustain their specialty in affordable multifamily finance and FHFA should continue with incremental increases to the multifamily goals, given GSE success at reaching these goals.

The proposed goal of 315,000 units for 2018-2020 is an appropriate incremental increase, based on our current understanding of the multifamily market. However, we recognize that both GSEs forecasted significant challenges for multifamily preservation in coming years in their draft Duty to Serve plans. Their predictions appear right now to be overly pessimistic, but if they do prove out, FHFA should be ready to adjust to market realities. Even if the multifamily sector overall is healthy, lending opportunities for low-income affordable housing are limited mainly by the availability of capital and operating subsidy.

Interpreting past GSE performance in multifamily affordable is challenging. Table 9 in the proposed goals provides useful historical data but resists an obvious summary. While multifamily lending increased overall, this trend was not consistent from 2012-2016.Total GSE affordable multifamily lending increased from 2012 to 2016, but total multifamily grew faster, so the proportion of affordable lending decreased. Affordable lending also experienced ups and downs over the period, with different paths for Fannie Mae and Freddie Mac. As we plan for the future, we should resist the urge to oversimplify in search of trends.

The GSEs should continue their efforts to serve the affordable multifamily market well and seeks ways to improve their products and processes, recognizing that secondary market efficiency in debt financing cannot on its own achieve deeply targeted affordable rental housing. FHFA is prudent to set goals based in the reality that additional subsidy sources enable targeted affordable multifamily lending. Without other subsidies like the Low Income Housing Tax Credit and rent assistance, greatly expanding GSE affordable multifamily volume is not possible.

D. Small multifamily subgoal

NHC continues to support the small multifamily subgoal. Small multifamily properties provide a significant amount of affordable housing, often without subsidy. Yet small multifamily properties lack consistent access to secondary market liquidity. NHC believes the goals for 2018-2020 are appropriate given the GSEs success in stretching to meet the small multifamily subgoal, Fannie Mae has yet to reach 10,000 units but its growth in 2015 and 2016 suggests it can reach 10,000 in 2017. Keeping these goals at an achievable level keeps them as meaningful incentives. If Fannie Mae and Freddie Mac continue to do well in meeting these goals, FHFA should consider making incremental increases.

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E. Conclusion

Fannie Mae and Freddie Mac are together the largest source of mortgage capital for homeownership and rental housing, and as such they play a pivotal role in assuring that affordable rental or owned homes are available to all in America. Continuing to implement housing goals encourages these two providers of mortgage capital to serve all segments of the market and influence other market players to do the same.

We offer these comments to assist FHFA in its implementation of the existing goals requirements and urge your renewed attention to the challenge of providing affordable housing. To discuss any of these comments in further detail, please contact Rebekah King, Policy Associate, National Housing Conference, (202) 466-2121 x248, rking@nhc.org. NHC appreciates the work of FHFA in preparing this rule as well as the opportunity to provide comments.

Sincerely,

Chris Estes
President and CEO