

October 25, 2021

Ms. Sandra Thompson  
Acting Director  
Federal Housing Finance Agency  
400 Seventh Street SW  
Washington, D.C. 20219

RE: Enterprise Equitable Housing Finance Plans RFI

Dear Acting Director Thompson:

The National Housing Conference is pleased to submit comments on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on the Enterprise's proposed Equitable Housing Finance Plans (the plans). Founded in 1931, the National Housing Conference is America's oldest and broadest housing coalition. We represent a diverse continuum of affordable housing stakeholders, including financial institutions, advocacy organizations, state housing finance agencies, and community nonprofits. We believe that everyone should be able to live in a quality, affordable home in a thriving community. Our mission is to convene and collaborate through dialogue, advocacy, research, and education, to develop equitable solutions that serve our common interest.

This comment letter is informed by extensive consultations with a wide range of our members, including members of a working group that has met three times over the past two months. FHFA's RFI states that the plans are "a tool for the Enterprises to undertake sustainable and meaningful actions to advance equity in the housing markets while ensuring safety and soundness." It also states that the plans are to "serve as a supplement to existing FHFA and Enterprise requirements, programs, and plans, and are designed to ensure a continued focus on housing equity that is aligned with other critical objectives including safety and soundness and other mission activities."<sup>1</sup> NHC encourages FHFA to work closely with the Enterprises in its role as conservator to ensure that the plans contribute to a meaningful improvement in their material contribution to improving racial equity in housing in America through the development and management of safe, sound and sustainable mortgage products.

We support the effort of the FHFA to address equity in housing finance through a holistic approach based on clear objectives, measurable goals and planned meaningful actions by the Fannie Mae and Freddie Mac (the Enterprises) to advance racial equity and support underserved communities. This RFI makes a constructive contribution to efforts to respond to President Biden's Executive Order 13985, entitled "Advancing Racial Equity and Support for Underserved Communities Through the Federal Government." As noted in the RFI, the Executive Order provides that "the Federal Government should pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality."<sup>2</sup>

The RFI states that the Enterprises' plans will include (emphasis added):

- An identification and summary of barriers to sustainable housing opportunity either directly related to the Enterprises' actions *or barriers in the housing market that can reasonably be influenced by the Enterprises' actions*;

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<sup>1</sup> Federal Housing Finance Agency (FHFA) Enterprise Equitable Housing Finance Plans Request for Input, September 2021. <https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/Equitable-Housing-Finance-Plans-RFI.pdf>

<sup>2</sup> Executive Order 13985, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government, 86 Fed. Reg. 7009 (Jan. 25, 2021).

- *Objectives and specific measurable goals* for Charter Act-compliant actions to address these barriers;
- A plan of *meaningful actions* for the next three-year period to address these barriers; and
- A summary of consultations conducted by the Enterprises with underrepresented and affected groups and communities in preparing their plans.

On July 16, 2021, NHC submitted a comment letter on the proposed Duty to Serve plans.<sup>3</sup> In this letter, we urged FHFA to address the omission of racial equity from the proposals. This RFI will contribute to the creation of a strategic framework for creating a more equitable mortgage environment. Together as the Enterprises, Fannie Mae and Freddie Mac can play a significant role in facilitating leadership in this market and enabling broad adoption of best practices as they devolve through a wide range of lender activities by their customers. Without their pro-active participation, genuine progress will be limited.

NHC emphasizes the need for as much consistency for these plans with Duty to Serve. Wherever possible, similar formatting, nomenclature, and methodology should be used to avoid unnecessary complexity in reporting for the Enterprises. The purpose of these plans is to provide a particular view of racial equity to meet specific needs, not to create burdensome and unnecessary reporting requirements. Alignment with Duty to Serve is beneficial for both the Enterprises in creating and following these plans and housing stakeholders tracking and commenting on them.

NHC has joined 19 other affordable housing organizations to form the Underserved Mortgage Markets Coalition with the express purpose of enhancing the tracking and transparency of Enterprise performance both in Duty to Serve and racial equity plans. We encourage FHFA, Fannie Mae, and Freddie Mac to collaborate with those of us in the Underserved Mortgage Markets Coalition to make it easier for stakeholders to understand the plans and the progress the Enterprises make toward achieving the plans.

Some will respond to FHFA's interest in expanding the role of the Enterprises by suggesting that increasing homeownership opportunities risks repeating the mistakes of the past, suggesting that the Enterprises' affordable housing goals were responsible for the subprime crisis and resulting financial crisis in 2008. This notion was considered and rejected by the Financial Crisis Inquiry Commission (FCIC) report. The FCIC's 2010 report "studied at length how the Department of Housing and Urban Development's (HUD's) affordable housing goals for the Enterprises affected their investment in risky mortgages" found that, "based on the evidence and interviews with dozens of individuals involved in this subject area, [...] these goals only contributed marginally to Fannie's and Freddie's participation in those mortgages."<sup>4</sup>

Since the financial crisis, the safety of mortgage lending has been significantly enhanced by the Dodd-Frank Wall Street Reform and Consumer Protection Act, particularly the establishment of the Qualified Mortgage (QM) rule and the creation of the Consumer Finance Protection Bureau (CFPB). These provisions have contributed to the overall successful risk mitigation of the market for the last ten years.<sup>5</sup> The QM rule prevented lenders from being forced to compete against the lowest common denominator of their peers and boasts support from the mortgage industry.<sup>6</sup> Yet, over a decade later, there has been no reemergence of a robust subprime mortgage market. Lenders remained convinced that there is no sustainable business model in most cases and have chosen not to reoccupy that space.

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<sup>3</sup> <https://nhc.org/wp-content/uploads/2021/07/NHC-DTS-RFI-FINAL.pdf>

<sup>4</sup> "CONCLUSIONS OF THE FINANCIAL CRISIS INQUIRY COMMISSION." Chapter. In *The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States*, xxvii. Washington, DC: Financial Crisis Inquiry Commission, 2011. <https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>.

<sup>5</sup> Goodman, Laurie. "New Data Confirm the Urgency of Addressing the Expiration of the GSE Patch." Urban Institute, June 28, 2019. <https://www.urban.org/urban-wire/new-data-confirm-urgency-addressing-expiration-gse-patch>.

<sup>6</sup> [https://nhc.org/wp-content/uploads/2021/04/QM-Coalition\\_QM-Compliance-Delay-NPRM-Reponse-4.5.211-002-1.pdf](https://nhc.org/wp-content/uploads/2021/04/QM-Coalition_QM-Compliance-Delay-NPRM-Reponse-4.5.211-002-1.pdf)

Safe, sound and sustainable mortgages must protect investors, the taxpayers, and the consumer in a way that does not exclude qualified borrowers to protect those who are not. The Enterprises are uniquely positioned and qualified to undertake this objective.

Throughout our stakeholder and working group consultations, the importance of transparency by both Enterprises and FHFA came up repeatedly. While the RFI anticipates Enterprise reporting progress on the 2022 plan on April 1, 2023, this report must make extensive data publicly available while considering reasonable protections of consumer privacy. Public examination of FHFA data is critical to allowing a robust debate on the efficacy of Enterprise activities.

FHFA must consider the role that it plays in limiting the Enterprises. The RFI has no mention of the role of FHFA in directing or limiting the field of what the Enterprises can do to advance racial equity. The Charter Act and the directives from FHFA should be reviewed to determine what actions the Enterprises can take under their current regulatory framework and what restrictions are impeding those goals. For example, the Enterprises are currently discouraged from adopting pilot programs. Last January, the New Products rule proposed disincentivizes pilots by including regulatory barriers, such as public comment periods, before enacting pilots. Pilot programs are vital methods of testing policy solutions. Indications of performance from such pilots can inform whether a policy or product change will be successful without fully committing to the change.

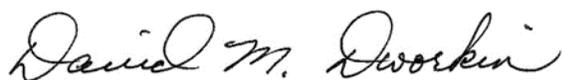
The unique role the Enterprises play in establishing and adjusting mortgage underwriting standards are highly influential in the sustainable expansion of credit to underserved consumers. Further, their automated underwriting systems play a significant role in scaling safe and sound products developed by their lender customers. The Enterprises played a significant role in narrowing the racial homeownership gap during the mid-1990s to early 2000s by developing safe and sound mortgage products like the 95% Loan to Value, 93% Loan to Value and My Community Mortgage products.

During the rise of subprime lending leveraged in private label securitization markets, these gains were undercut, particularly in communities of color. Rampant equity stripping schemes destroyed Black homeowner wealth and weakened the resiliency of entire communities. During the runup to the financial crisis, millions of Black homeowners were refinanced out of Enterprise and Federal Housing Administration (FHA) loans into cash-out, subprime loans with teaser rates with unsustainable rate resets.

Automated underwriting systems also helped remove direct human bias and “character lending” from the underwriting process. Today’s underwriting bias is significantly more complicated as a result, as disparate impact issues may interact with sustainable underwriting criteria. The adoption of sophisticated models that balance compensating risk factors can either exacerbate or mitigate disparate impact. This is an area where Enterprise leadership, and thorough and transparent consultation with fair lending experts, can make new progress.

Specific opportunities for Enterprise actions to create sustainable improvements in racial equity are addressed in the RFI’s Objectives, Measurable Goals and Actions section.

Sincerely,



David M. Dworkin  
President and CEO

## Objectives, Measurable Goals and Actions

### Objective

#### *Reducing the racial or ethnic homeownership gap*

The persisting racial homeownership gap is the driving force behind the need for these equity plans. The gap is worse today than when discrimination was legal, before passage of the 1968 Fair Housing Act.<sup>7</sup> In the second quarter of 2021, the homeownership rates by race are as follows: non-Hispanic Whites at 74.2%, Asian/Native Hawaiian/Pacific Islander at 58.7%, Hispanics at 47.5%, and Blacks at 44.6%.<sup>8</sup>

To make a significant difference in closing this gap, the Enterprises need to make significant changes in how they work with lenders to expand access to credit to communities of color. According to fair lending data published by FHFA, White applicants are approved between 89-92% by the Enterprises, while Black borrowers are only approved between 74-82%. Asian applicants are approved between 88-92%, Latino applicants between 82-87%, American Indian and Native Alaskan applicants between 78-87%, and Native Hawaiian and Pacific Islander applicants between 83-88%.<sup>9</sup>

Even more troubling is FHFA’s Annual Housing Report.<sup>10</sup> Freddie Mac significantly lagged the home purchase market for loans to Black home buyers in 2019, with only 3.6% of loans going to African Americans, compared to 4.8% for Fannie Mae and 4.3% for the overall market. Freddie Mac significantly underperformed Fannie Mae in the Hispanic market as well. But the larger problem is that overall market performance is still significantly below where it has been in the past and should be to move toward closing the racial homeownership gap. The Enterprises are uniquely positioned to enable lenders to grow the overall market for people of color.

Home Purchase						
Race/Ethnicity of Borrower(s)	2018			2019		
	Market	Fannie Mae	Freddie Mac	Market	Fannie Mae	Freddie Mac
Hispanic or Latino	9.2%	10.8%	8.8%	9.9%	12.1%	9.4%
American Indian/Alaskan Native	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Asian	7.6%	6.9%	7.3%	7.5%	7.1%	7.2%
African American	4.1%	4.7%	3.5%	4.3%	4.8%	3.6%
Native Hawaiian/Pacific Islander	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%
Non-Hispanic White Alone	77.7%	76.5%	77.8%	77.0%	74.8%	77.2%
Two or More Races	1.0%	0.7%	2.2%	1.0%	0.9%	2.3%
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>7</sup> Choi, Jung Hyun, Alanna McCargo, Michael Neal, Laurie Goodman, and Caitlin Young. “Explaining the Black-White Homeownership Gap.” Urban Institute, October 2019.

[https://www.urban.org/sites/default/files/publication/101160/explaining\\_the\\_black-white\\_homeownership\\_gap\\_2.pdf](https://www.urban.org/sites/default/files/publication/101160/explaining_the_black-white_homeownership_gap_2.pdf)

<sup>8</sup> “Quarterly Residential Vacancies and Homeownership, Second Quarter.” United States Census Bureau. Accessed October 18, 2021. <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>

<sup>9</sup> <https://www.fhfa.gov/DataTools/Downloads/Pages/Fair-Lending-Data.aspx>

<sup>10</sup> “Annual Housing Report 2020.” Federal Housing Finance Agency, October 30, 2020.

<https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Annual-Housing-Report-2020.pdf>

According to the NAHREP, there is ample opportunity to increase Hispanic homeownership. After six consecutive years of an increasing Hispanic homeownership rate, there are still 8.3 million mortgage-ready Latinos. NAHREP predicts that over the next 20 years, 70% of new homeowners will be Latino.<sup>11</sup>

FHFA's establishment of the Racial Equity plans will help lessen this gap with concentrated lending efforts to these groups, but only if meaningful, measurable goals are set.

### Measurable Goals

The Black Homeownership Collaborative is an initiative led by the National Housing Conference, National Urban League, Mortgage Bankers Association, National Association of REALTORS®, National Association of Real Estate Brokers, NAACP, and National Fair Housing Alliance, with research from the Urban Institute. With over 100 housing leaders that span the political spectrum in every area of housing advocacy and industry, they developed a 7 Point Plan to create 3 million net new Black homeowners by 2030. It is the culmination of two years of work and hundreds of hours of meetings that addressed the unique challenges and opportunities regarding mortgage lending, housing production; counseling and down payment assistance; civil and consumer rights; and marketing. According to research by Freddie Mac, there are currently 3.4 million "mortgage ready" Black renters and another 2 million Black renters who are "near mortgage ready." Mortgage ready is defined as a group of potential future borrowers ages 45 and younger, with credit scores above 661 and a debt-to-income (DTI) ratio below 25%. "Near Mortgage Ready" is defined as a group of potential future borrowers ages 45 and younger, with credit scores between 660 and 661 and a debt to DTI ratio above 25%.

In addition to the current benchmark for single-family lending in Minority Census Tracts, set at 10%,<sup>12</sup> FHFA and the Enterprises should work with the Black Homeownership Collaborative and NHC Racial Equity Working Group to develop annual benchmarks for Enterprise loans to reach the goal of 3 million net new Black homeowners by 2030, with comparable increases in homeownership for Hispanic and Asian Americans. In the case of Black Americans, assuming a 43% market share, the Enterprises would have to buy 225,000 loans to Black first-time homebuyers in Year 1 and increase that amount 10% each year through Year 9 to reach the goal of 3 million net new Black homeowners.

### Actions

The following actions would need to be taken to reach the goal of 3 million net new Black homeowners by 2030, with comparable increases in homeownership for Hispanic and Asian Americans.

- 1) A major detriment to the racial homeownership gap is the lack of availability of small-dollar mortgages. NHC identified several ways to increase access to small-dollar mortgage lending. The Enterprises should incentivize the purchase of small-dollar mortgages to make a meaningful impact for borrowers of color. In 2015, only 25 percent of homes purchased for \$70,000 or less were financed with a mortgage, compared to almost 80 percent of homes worth between \$70,000 and \$150,000.<sup>13</sup> Many lenders do not make loans valued at \$70,000 or less due to high fixed servicing costs and perceived risk.<sup>14</sup> However, small-dollar mortgages are important building blocks for low- to moderate-income households to access homeownership opportunities.

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<sup>11</sup> "State of Hispanic Homeownership Report 2020." NAHREP. Accessed October 18, 2021. <https://nahrep.org/shhr/>.

<sup>12</sup> "FHFA Proposes 2022-2024 Housing Goals for Fannie Mae and Freddie Mac ." Federal Housing Finance Agency. Accessed October 18, 2021. <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Proposes-2022-2024-Housing-Goals-for-Fannie-Mae-and-Freddie-Mac.aspx>

<sup>13</sup> Stochak, S., Bai, B., & McCargo, A. (2019). (rep.). Small-Dollar Mortgages: A Loan Performance Analysis (pp. 1–9). Washington, DC: Urban Institute.

<sup>14</sup> McCargo, A., Bai, B., George, T., & Stochak, S. (2018). (rep.). Small-Dollar Mortgages for Single-Family Residential Properties (pp. IV-33). Washington, DC: Urban Institute.

- 2) The Enterprises should identify emerging and third-party lenders that service low-dollar mortgages to pick up big packages from institutions they would not ordinarily work with. There is an opportunity to lend in these spaces and create liquidity in markets where alternative institutions can make small-dollar loans less expensively.
- 3) The Enterprises have engaged with Community Development Financial Institutions (CDFIs) on Duty to Serve and should work with them to fund a small dollar mortgage lending program.<sup>15</sup>
- 4) FHFA should suspend the ban on grantmaking for the Enterprises. This would allow a fund to be created for small-dollar loans to provide the gap financing needed to make small-dollar lending more economic.
- 5) Eliminate Fannie Mae's Loan Level Price Adjustments (LLPA's) and Freddie Mac's delivery fees for first-generation homebuyers. This risk-based fee is charged directly to mortgage borrowers through their rate based on loan terms, credit scores, loan-to-value (LTV), and other risk factors to mitigate repayment issues. However, this impacts people who need mortgage assistance the most by charging them the most.<sup>16</sup> Qualified homebuyers face arbitrarily high mortgage credit prices, particularly first-time homebuyers, first-generation homebuyers, and people of color, despite already having qualified for the mortgage.<sup>17</sup>
- 6) Develop an Enterprise investment fund for- and non-profit developers, community organizations, units of government, public housing authorities, and tribal governments. A competitive and transparent grant making program that is targeted to high-capacity organizations would be an efficient and effective way for the Enterprises to support equitable housing outcomes.
- 7) Develop nationwide marketing campaigns in coordinated with approved seller-servicers and other interested stakeholders, including but not limited to members of the Black Homeownership Collaborative, National Association of Hispanic Real Estate Professionals, Unidos U.S., and the Asian Real Estate Association of America (AREAA)

## Objective

*Reducing underinvestment or undervaluation in formerly redlined areas that remain racially or ethnically concentrated areas of poverty or otherwise underserved or undervalued*

According to the Treasury Department's April 3, 2018, Memorandum to the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC), redlining is "the practice of denying services, either directly or through selectively raising prices, to residents of certain geographies. Redlining is generally based on the race, color, or ethnicity of particular communities and often adversely affects LMI neighborhoods. Redlining and disinvestment may overlap when the redlined community is also a source of deposits." Redlining was formally adopted as U.S. government policy by the Home Owners' Loan Corporation (HOLC) in 1933 and subsequently by the Federal Housing Administration and Veterans Administration. It

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<sup>15</sup> "Fannie Mae Duty to Serve Plan 2018-2021." Federal Housing Finance Agency, January 1, 2021. [https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FannieMaeDTSPan\\_2018-2021.pdf](https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FannieMaeDTSPan_2018-2021.pdf)

<sup>16</sup> Dworkin, David. "Expanding the Role of Fannie and Freddie in Affordable Housing." National Housing Conference, September 13, 2021. <https://nhc.org/expanding-the-role-of-fannie-and-freddie-in-affordable-housing/>.

<sup>17</sup> <https://www.nareb.com/site-files/uploads/2016/06/2016.06.22-Stakeholder-Letter-to-FHFA-on-LLPAs-and-Guarantee-Fees-FINAL.pdf>

precluded millions of people of color from benefiting from a range of federal loan products that allowed the White middle class in America to build wealth through homeownership.

While there is significant evidence of the impact of redlining on minority communities, it is not at all clear that these nearly 87-year-old demarcations will be impactful in reversing the damage they caused. While formerly redlined boundaries should be considered in these plans, they should not be determinative. Research by the Brookings Institution found that in the ten U.S. cities with the largest population in redlined areas today, only 28% are Black and 31% White.<sup>18</sup> The report noted that “proposals that base their remedies primarily on formerly redlined areas paradoxically do not redress the main racial group that was explicitly targeted (African Americans), exclude important Black neighborhoods and communities, and would skew impact toward a handful of large cities.”

Currently, FHFA utilizes a definition of “Areas of Concentrated Poverty” for its Duty to Serve cycle of plans.<sup>19</sup> To avoid any unnecessary complexity between Duty to Serve and the Racial Equity plans, the same definitions of these areas should be used for both plans. Focusing on areas of concentrated poverty would provide a clear motivation to serve people of color without limiting the scope to geographies that were formerly redlined but may not represent the same demographics today. However, only racially targeted strategies can effectively address the impact of redlining on the people who were hurt by redlining. The Brookings report clarifies that Black-majority suburbs have grown significantly and are heavily underrepresented in HOLC maps. These suburbs are a vitally important market for converting mortgage-ready Black minority renters into homeowners. Similarly, Hispanic and Asian mortgage-ready consumers will not be adequately served by reliance on redlining boundaries.

### Measurable Goals

Valuation is critical to making impacts in areas where mortgages are low since these are the same areas where lending is disincentivized. Studies have shown that homes in majority-Black neighborhoods are valued at 23% less than similar homes in neighborhoods with fewer Black residents, despite having similar amenities.<sup>20</sup>

FHFA should create a flag for undervaluation in Enterprise evaluation of loans for purchase, like the existing flag for overvaluation to address undervaluation in these areas. This would be an effective way to begin considering how and when undervaluation is impacting communities of color. An undervaluation flag and appropriate remedy would also impact recovering communities, particularly those eligible under the proposed Neighborhood Homes Investment Act.

### Actions

Lowering the procedural barriers for CEFIs, nonprofits and other lenders with a mission focus in communities of color to become approved sellers would help this objective as they have established trust with the local communities.

Simplifying the first look program for nonprofits to obtain REO properties to 90 days.

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<sup>18</sup> Perry, Andre M., and David Harshbarger. “America’s Formerly Redlined Neighborhoods Have Changed, and so Must Solutions to Rectify Them.” Brookings. Brookings, October 14, 2019. <https://www.brookings.edu/research/americas-formerly-redlines-areas-changed-so-must-solutions/>

<sup>19</sup> “Duty to Serve Data.” Federal Housing Finance Agency. Accessed October 18, 2021. <https://www.fhfa.gov/DataTools/https://www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Data.aspx/Pages/Duty-to-Serve-Data.aspx>

<sup>20</sup> Perry, Andre M., Jonathan Rothwell, and David Harshbarger. “The Devaluation of Assets in Black Neighborhoods.” Brookings. Brookings, February 17, 2021. <https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/>

## Objective

*Reducing racial or ethnic disparities in acceptance rates for the Enterprise's automated underwriting system (AUS)*

To adequately address any racial or ethnic disparities within the Enterprises automatic underwriting systems, there must be a determination of where such disparities exist within the systems and why. FHFA and the Enterprises should work with qualified fair housing organizations like the National Fair Housing Alliance to analyze their AUS to identify disparate impact and develop strategies less discriminatory alternatives (LDAs) that ensure mortgage decisions are both fair and sustainable.

A concentrated effort must be made to increase the credit box for credit thin and credit invisible borrowers. As a general rule, the more data available from borrowers, the easier it is to determine if they are mortgage-ready. FHFA's announcement in August that Fannie Mae will consider rental payment history in the mortgage application review process is a positive example of this.<sup>21</sup> Credit scores, while predictive of risk in the aggregate and an important component of sustainable lending, remain a barrier to mortgage credit for many borrowers of color and low-income borrowers. Data shows that 33% of Black households are missing a credit score compared to only 17.9% of White households, and for those with scores, over 50% of White people have FICO scores above 700 compared to only 20.6% of Black people.<sup>22</sup> While the credit score is a significant improvement over manual underwriting, it is an imperfect measurement of borrower capability for repayment. Additional data sources, like rental payments, will help bridge this gap for qualified borrowers with lower credit scores.

NHC supports the use of artificial intelligence (A.I.) and machine learning (ML) to develop better predictive models. Freddie Mac is currently utilizing Zest A.I., a patented fair lending tool, to optimize their underwriting model for more equitable outcomes. Exploring these technologies and explicitly requiring the Enterprises to check for LDAs when analyzing their AUSs will help capture more mortgage-ready borrowers otherwise credit invisible. Fair Isaac and Vantage have committed significant resources to improve credit scoring as well.

## Measurable Goals

Researchers in this area struggle with small sample sizes and often cannot determine satisfactory conclusions based on those small data sets. The Enterprises hold the largest data set in the country on mortgage borrowers and can provide significant assistance to reach credit-thin borrowers. While reasonable privacy concerns must be mitigated, secure data sharing agreements can protect individuals' identities and proprietary business models.

## Actions

- 1) Changes in the AUS are an ideal opportunity for a pilot study.
- 2) If Congress enacts the Neighborhood Homes Investment Act, the Enterprises should develop pilot programs to purchase mortgages with NHIA equity and invest in NHIA tax credits.
- 3) The FHFA can convene an industry roundtable on AUS with fair housing advocates, Fannie Mae, Freddie Mac, credit reporting agencies, lenders with high volumes in underserved areas where

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<sup>21</sup> "FHFA Announces Inclusion of Rental Payment History in Fannie Mae's Underwriting Process." Federal Housing Finance Agency. Accessed October 18, 2021. <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Inclusion-of-Rental-Payment-History-in-Fannie-Maes-Underwriting-Process.aspx>

<sup>22</sup> Choi, Jung Hyun, Alanna McCargo, Michael Neal, Laurie Goodman, and Caitlin Young. "Explaining the Black-White Homeownership Gap." Urban Institute, October 2019. [https://www.urban.org/sites/default/files/publication/101160/explaining\\_the\\_black-white\\_homeownership\\_gap\\_2.pdf](https://www.urban.org/sites/default/files/publication/101160/explaining_the_black-white_homeownership_gap_2.pdf)

appraisal values make lending more difficult to identify strategies for to allow for broader comparable values, alternate valuation methods, and other ideas.

- 4) Adequately fund housing counseling provided to first-time homebuyers. Fannie Mae's \$500 LLPA paid to the lender for a counseled loan rarely filters down to the counseling agency.
- 5) Restore the housing counseling data fields in the Uniform Residential Loan Application. This will allow servicers to refer delinquent borrowers back to the agency with which they had worked.
- 6) Restore the language preference collection in the Uniform Residential Loan Application. Integrating the language preference data field into mortgage origination, requiring that the language preference transfers at closing with the mortgage information to the servicer, and keeping the information available if servicing is sold, will mean that the lender and servicer have the ability to communicate in language at any point in the relationship.
- 7) Develop mechanisms to automatically notify housing counselors of early delinquencies within the first 30 days of the payment due date.

### Objective

*Reducing racial or ethnic disparities in servicing, loan modifications, and loss mitigation*

A recent report by the Consumer Financial Protection Bureau revealed racial disparities in forbearance data. Black and Hispanic borrowers, who represent 18% of mortgage borrowers, were overrepresented in the share of borrowers currently in forbearance at 33% or delinquent at 27% (note that this report was conducted during the COVID-19 pandemic).<sup>23</sup> The report further cites complaints regarding communications services and clear information about loan options.

### Measurable Goals

Track and reduce racial and ethnic disparities in servicing, loan modification and loss mitigation, identifying initial benchmarks to track progress.

### Actions

- 1) The Enterprises should work with servicers, fair housing advocates and housing counselors to develop servicing, loan modification and loss mitigation strategies for first-time homebuyers.
- 2) The Enterprises should conduct an internal study on racial disparities in servicing, loan modifications, and loss mitigation. The study should include an overview of Black and Hispanic borrowers that entered mitigation, but not forbearance, to analyze the success of servicing methods and how borrowers are returning their loans to performing. Data on households receiving loan modifications by race and ethnicity will help determine where disparities are present. Analyses of varying loss mitigation efforts, including sales as lost mitigation, would also be beneficial in structuring more equitable servicing.

### Objective

*Increasing the supply of affordable housing available in areas with access to educational, transportation, economic, and other important opportunities*

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<sup>23</sup> "Characteristics of Mortgage Borrowers During the COVID-19 Pandemic." Consumer Financial Protection Bureau. CFPB Office of Research Special Issue Brief. Accessed October 18, 2021. [https://files.consumerfinance.gov/f/documents/cfpb\\_characteristics-mortgage-borrowers-during-covid-19-pandemic\\_report\\_2021-05.pdf](https://files.consumerfinance.gov/f/documents/cfpb_characteristics-mortgage-borrowers-during-covid-19-pandemic_report_2021-05.pdf)

The Enterprises address loan purchases to areas of concentrated poverty and areas of high opportunity in tandem through their Residential Economic Diversity initiatives under Duty to Serve as an additional activity.<sup>24</sup> Freddie Mac has a loan purchase goal of 3,800 restricted units in high opportunity areas for 2021.<sup>25</sup> Fannie Mae's Duty to Serve plans surrounding Residential Economic Diversity are more initiative-based in the manufactured housing market; however, they establish a 2021 goal of purchasing 12 loans, or approximately 1,824 units, in areas that meet their needs Residential Economic Diversity initiative.<sup>26</sup>

### Measurable Goals

To increase these numbers, the Enterprises could provide MBS guarantees for forward commitments by private investors interested in developing in these areas. Currently, the only form of this lending is available for Low Income Housing Tax Credit (LIHTC) deals.

This type of lending involves a private investor writing the takeout loan and taking on the interest rate, hedging and delivery risk. At the same time, the Enterprises only need to make the credit guaranty available for the permanent loan where the investor makes a forward commitment of the interest rate. This type of lending could be made available for the full range of goals-qualifying developments to encourage financing by private investors.

Further, the Enterprises are currently working on outreach and partnerships with state and local entities working on programs to increase residential economic diversity under Duty to Serve. A clearer understanding of local needs can inform a holistic program adopted by the Enterprises in the Racial Equity Plans through this outreach.

### Actions

Develop robust pilot programs with lenders to allow for meaningful impact in this area. Utilizing the Enterprises' work to inform a pilot program would help meet these challenges in goal setting and determine reasonable benchmarks for increasing these numbers within certain racial and ethnic groups.

### Objective

*Increasing sustainable housing opportunities for individuals in the mortgage market, such as by expanding the number of qualified borrowers of a particular racial or ethnic group or making policy changes to promote fair lending*

Sustainability is key to making net improvements in the racial homeownership gap. The Enterprises should identify sustainability strategies for at-risk communities, likely through intervention strategies. Homeownership counseling has proven to be an invaluable tool in encouraging sustainable lending.<sup>27</sup> These counseling strategies should include reservicing provisions so that a single agency works with the borrower to limit confusion and distrust.

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<sup>24</sup> "FHFA Presents Snapshots from Freddie Mac's & Fannie Mae's Duty to Serve Underserved Markets Plans for Residential Economic Diversity." Federal Housing Finance Agency, January 1, 2018.

<https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/DTS-RED.pdf>

<sup>25</sup> "Freddie Mac Duty to Serve Underserved Markets Plan," December 18, 2018. <http://www.freddiemac.com/about/duty-to-serve/docs/Freddie-Mac-Underserved-Markets-Plan.pdf>

<sup>26</sup> "Fannie Mae Duty to Serve Plan 2018-2021." Federal Housing Finance Agency, January 1, 2021.

[https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FannieMaeDTSPlan\\_2018-2021.pdf](https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FannieMaeDTSPlan_2018-2021.pdf)

<sup>27</sup> Scally, Corianne P, Camille H Anoll, Jung Choi, Patrick Spauster, Leah Hendey, Diane K Levy, and Bing Bai. "Responding to a Crisis: The National Foreclosure Mitigation Counseling Program, 2008–2018," December 2018.

<https://www.neighborworks.org/NFMCCapstoneReport>

NHC's earlier comments on expanding the credit box will also help increase qualified borrowers in particular racial and ethnic groups. We reiterate that mortgage-ready borrowers in minority groups are present but unable to access the mortgage credit that they need. Along with adopting new predictive technologies like A.I. and ML, the Enterprises should also review their marketing practices in underserved areas.

### Objective

*Conducting, and making available publicly, research and data on advancing equity and sustainable housing opportunities*

NHC has emphasized the importance of transparency and data throughout our response. This is consistent with our response to the Duty to Serve plans. FHFA has vast data on the mortgage industry that can provide invaluable research and insights into closing the homeownership gap and promoting racial equity within the mortgage market. Further, NHC again emphasizes the need for pilot programs by Fannie Mae and Freddie Mac. Pilot programs are the best tool the Enterprises have in determining which products, services, and research can best move their numbers forward and reach the goals set in these plans. The available data that FHFA has and the capability of the Enterprises to perform pilots offer an opportunity to advance racial equity goals. Transparent reporting of the results of the suggested pilots, as well as data shared on the Enterprises lending practices broken down by race and ethnicity, would provide a foundation for the Racial Equity Plans to be built from.

### Actions

Specifically, the Enterprises should provide data broken down by race and ethnicity relating to lending practices, loss mitigation practices and outcomes, tenant screening, repayment options, AUS acceptance and rejection rates, and any other available data related to the objectives laid out in this RFI.