



June 7, 2024

Leda Bloomfield
Chief for Policy and Equity, Office of Fair Lending Oversight
Federal Housing Finance Agency
400 Seventh Street SW
Washington D.C. 20219

RE: Fannie Mae and Freddie Mac Equitable Housing Finance Plans Request for Input

Dear Mrs. Bloomfield:

The National Council of State Housing Agencies (NCSHA),¹ on behalf of the nation's state housing finance agencies (HFAs), thanks the Federal Housing Finance Agency (FHFA) for the opportunity to comment on the April 30 Request for Input (RFI) on the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac's Equitable Housing Finance Plans for 2025-2027.

NCSHA thanks FHFA for its continued focus on establishing an equitable housing finance market and for recently acting to codify the Equitable Housing Finance plans into federal regulations (RIN 2590-AB29). The Plans have helped spur Fannie Mae and Freddie Mac to take substantive steps toward addressing inequities in our nation's housing markets and confronting the long-standing, persistent, and deep disparities in affordable housing access based on color, income, and other factors.

We applaud FHFA and the GSEs for their actions to date designed to overcome these inequities and disparities. We believe the GSEs, like many of us in the housing industry, have been learning more about how they can help in this area, developing and testing important products and activities, and expanding their capacity to do more.

When FHFA first issued its directive on equitable housing in 2021, NCSHA pledged to FHFA that we and the state HFAs stand ready to work with FHFA and the GSEs to increase homeownership and other affordable housing opportunities for households of color and other underserved communities.

¹ NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

Three years later, our commitment remains.

HFAs are Natural Partners for Increasing Housing Equity

HFAs are at the center of the nation's affordable housing system and are focused on meeting the affordable mortgage finance needs of the low- and moderate-income (LMI) homebuyers and renters in their states.

In total, HFAs have funded homeownership loans for more than 4 million working families. In 2022 alone, state HFA programs provided more than \$28.1 billion to nearly 109,000 homebuyers. This includes an estimated 27,000 loans guaranteed by Fannie Mae or Freddie Mac. The median borrower income for all HFA program loans in 2022 was \$59,427, 80 percent of the national median income. Thirty-eight percent of HFA program loans went to people of color and 39 percent to female-headed households.

Twenty-eight state HFAs are sellers and/or servicers for one or both GSEs. HFAs have partnered with Fannie Mae and Freddie Mac to extend billions of dollars in credit to tens of thousands of homebuyers over the past several years.

Many HFAs and their state governments are developing special programs to assist underserved borrowers, including first-generation homebuyer programs, more down payment assistance, home repair lending, foreclosure and eviction prevention, rental assistance, and other products and terms to extend credit and assistance to more households.

Given this track record, HFAs have been and continue to be well-positioned to work with FHFA and the GSEs to address several of the well-documented barriers to a more equitable housing finance system: unfair loan pricing, lack of savings for a down payment and closing costs, student loan debt, vulnerability to foreclosure or losing their homes, high rental cost burdens, and the inadequate supply of affordable homes.

Suggestions for Further GSE-HFA Partnerships

Generally, NCSHA believes the GSEs can and should continue to examine and revise loan underwriting criteria, support HFAs' and others' first-generation and Special Purpose or Special Purpose-like Credit Programs and find new ways to assess risk to qualify more nontraditional but purchase-ready borrowers. Robust GSE activity in these areas would enable Fannie Mae and Freddie Mac to develop durable and large-scale programs as well as targeted and niche products and activities to make a significant impact on promoting more equitable housing finance.

The GSEs must also, however, stay focused on their standard or traditional HFA and other affordable housing products and their Affordable Housing Goals and Duty to Serve priorities, many of which also support more equitable housing finance.

For the purposes of this letter, NCSHA will focus on two specific policy suggestions that could leverage the HFA delivery system and the GSEs' resources and market influence to make progress toward our shared equitable housing finance goals: 1) Fully restoring the pricing advantage for the GSEs' HFA products; and 2) facilitating acquisition, development, and construction financing through HFAs.

For years, Fannie Mae and Freddie Mac have offered special HFA-only products (HFA Preferred for Fannie Mae and HFA Advantage for Freddie Mac) that offered discounted pricing and other borrower benefits. These products have helped HFAs reach new consumers. Since Fannie Mae first launched its product in 2011, HFAs have utilized them to help nearly 300,000 households purchase a home.

Unfortunately, in 2019, to comply with FHFA's capital requirements, Fannie Mae and Freddie Mac eliminated the pricing advantage for their HFA products for all loans to borrowers above 80 percent of AMI. They also increased the private mortgage insurance coverage requirements for such borrowers. This greatly hindered HFAs' ability to use the products to help working families buy a home.

Thankfully, in late 2022, FHFA directed the GSEs to waive LLPAs for a variety of affordable mortgage products, including all HFA-only product loans, restoring much of the pricing advantage. We thank FHFA for this, which has helped HFAs serve more customers and households of color through the GSE loans.

We now ask FHFA to go one step further and waive the increased private mortgage insurance coverage requirements for all HFA-only product loans so all HFA borrowers would be eligible to take out the "charter level" of coverage. Such a step would save low-and moderate-income homebuyers hundreds, or even thousands, of dollars a year in mortgage insurance costs, making homeownership more affordable.

Regarding AD&C financing, the shortage of affordable for-sale homes has been well documented. A decade ago, roughly 20 percent of HFA-financed homebuyers purchased a new home. In 2022, only seven percent did. This is just one more indicator of the worsening shortfall of entry-level homes. The lack of supply also means would-be homebuyers utilizing an HFA program loan with down payment assistance face stiff competition from all-cash buyers and others who have the equity needed to put down a large down payment.

Many HFAs are piloting innovative supply efforts, but HFAs cannot provide the large-scale, national-level support that is needed to truly address this issue. Fannie Mae and Freddie Mac can. We suggest that the HFAs and the GSEs benefit from each other's strengths and capabilities and partner together to pilot AD&C loans for the development of affordable for-sale homes.

First-Generation Homebuyer Definition

The RFI specifically requests input on the definition of "first-generation homebuyer" recently published by both Fannie Mae and Freddie Mac. NCSHA thanks FHFA and the GSEs for promulgating the definition, which will establish an industry standard that hopefully incentivizes the establishment of more programs targeting first-generation homebuyers. We also commend the GSEs for consulting with HFAs that are currently running first-generation homebuyer programs when drafting the definition.

While the current definition is generally sound, we feel there are a few ways it can be improved.

Most importantly, we ask that FHFA and the GSEs clarify and work to make it understood widely that the definition is not binding on HFA and other state and local programs targeted to first-generation homebuyers that may use a different definition. Several HFAs have in recent years established first-generation homebuyer programs, with the definitions all or in part set by their state legislatures.

If the GSEs or their lenders hold strictly to the GSE definition, loans made under some of these programs might not be eligible for Fannie Mae or Freddie Mac purchase or securitization unless those states were to change their definition, a potentially tall order. Further, the state legislatures established these definitions to meet the specific needs of their constituents. Forcing them to be modified would cut against the purpose of the definition, which is to encourage affordable homeownership programs for underserved populations.

In addition, the current definition requires a first-generation homebuyer to also be a "first-time homebuyer," which the GSEs classify as those who have not owned a home in the past three years. We suggest the GSEs modify this definition to include those who owned a home in the past three years but lost it due to foreclosure or other adverse circumstances (but who otherwise meet the first-generation homebuyer definition).

Further, we request that the GSEs allow a loan to be considered a first-generation homebuyer loan if at least one of the borrowers meets the definition. Currently all borrowers must be first-generation homebuyers. Both changes will increase the ability of first-generation initiatives to serve households at the margin and advance housing equity.

Thank you again for the opportunity to comment. Please let us know if we can provide any additional information as you consider our recommendations.

A handwritten signature in black ink, appearing to read "Garth Rieman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives