March 11, 2022

Federal Housing Finance Agency
Office of the Director
Tenth Floor, 400 Seventh Street, S.W.
Washington, D.C. 20219

Re: Input on proposed 2022-2026 FHFA strategic plan

Dear Director Thompson,

The undersigned organizations are among those concerned about the affordable housing mission responsibilities of Fannie Mae and Freddie Mac and the FHLBanks. We commend FHFA for proposing a strategic plan, soliciting public comment, and recognizing the importance and timeliness of reaching underserved markets. This letter will outline the priorities we find of utmost importance to consider in planning for the coming years.

As our colleagues in the Underserved Mortgage Markets Coalition (UMMC) commented after the rejection of the three-year Duty to Serve (DTS) plans from the Enterprises, certain priority policy changes should be made as soon as possible. These policies will undergird FHFA’s strategic plan. The most important policy changes that FHFA needs to make to position the Enterprises for success in reaching underserved markets include encouraging more pilot programs and new products, permitting targeted equity investments supporting the DTS and EHF plans, and implementing more effectively incentivized pricing strategies.

1. **Most Important FHFA Policy Changes to Reach Underserved Markets**
2. **Pilots and New Products**

In the past, the Enterprises have dedicated enormous resources to developing and designing pilot programs, to explore new markets and products while managing risk. External stakeholders need to have access to track ongoing progress on pilot activities, (some of which had promising starts but have not been posted in subsequent quarters).[[1]](#footnote-2)

We urge FHFA to clarify that new products and pilots serving underserved markets are encouraged and expected. FHFA should reverse what we infer to be current policy and strongly encourage pilots and new products, at least in underserved markets. For example, but without limitation, pilot programs for the following products should be explored:

1. Restart chattel lending pilot programs for manufactured housing, to finally test whether the Enterprises can serve that high impact market.
2. Green mortgages should be piloted to address underserved communities with disproportionate concentrations of low-performing homes. Developing and executing this pilot should evaluate expected savings on planned improvements with actual savings on completed improvements and the extent to which energy savings enhance mortgage access to homeownership.
3. Pilot a new Section 515 loan purchase product that would better serve low-income households in rural areas.

Increasing the scale of the pilot programs will enable the Enterprises to manage risk and identify more efficient and productive measures to advance their mission.

1. **Targeted Equity and/or Grant Investments**

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| **How Could the Enterprises Support Creating New MHROCs?**In FHFA’s 2022–2026 strategic plan, the Agency should prioritize permitting the Enterprises to make targeted equity investments in CDFIs’ “special purpose vehicles” to finance the unsecured subordinated tranches of MHROC acquisition loans, thereby providing the Enterprises with a senior secured second mortgage loan (i.e., below 90 percent LTV first mortgage) that can be included in its regular securitizations.ROC USA, the leading CDFI in this market, confirms that equity investments are needed for MHROCs to meet securitization LTV requirements. MHROCs are only one example. A relatively small amount of targeted equity investment could help the Enterprises reach many more underserved markets, not just MHROCs. The only hurdle is an apparent FHFA legal opinion that is inconsistent with the plain language of the statute. |

FHFA should also prioritize Enterprise targeted equity and/or Grant investments. Equity investments are extremely important in the overall strategy to reach Duty to Serve (DTS), and Equitable Housing Finance (EHF) underserved markets. Relatively small, targeted investments by the Enterprises will have an outsized impact on improving liquidity across underserved markets and help cover some of the substantial credit risk barriers Community Development Financial Institutions (CDFIs) carry. Manufactured Housing Resident-Owned Communities (MHROCs) are an example of a high-impact market where the Enterprises have not yet succeeded in materially increasing capital. Targeted equity and/or grant investments would allow the Enterprises to meaningfully reach the MHROC market (see sidebar).

1. **Pricing**

With the capital rule now finalized, FHFA should turn its focus to the question of pricing for success in underserved markets. There have been many calls to change or eliminate the loan level price adjustments (LLPAs) that apply to borrowers with lower FICO scores and higher LTVs. While Freddie Mac’s Home Possible and Fannie Mae’s HomeReady mortgage products waive LLPAs, those products are only available to customers under 80 percent of area median income and have a number of other restrictions, so their reach is limited. We fully understand that many considerations factor into pricing, not the least of which is the importance of the Enterprises retaining the higher FICO, lower LTV borrowers that might otherwise move to a private channel. However, we believe there is still a significant opportunity for FHFA to implement pricing strategies that more effectively incentivize the loan purchases on which the success of the Duty to Serve rule and the Equitable Housing initiative depend.

1. **Addressing Housing Finance Markets that Promote Equitable Access to Housing**
2. **Considering Climate**

The science is clear that time is running out to address the climate emergency. The climate crisis will continue to have destructive outcomes on homes and infrastructure, resulting in loss of property and income with adverse effects on already socially and economically vulnerable communities.[[2]](#footnote-3) The Enterprises’ role in financing energy and resilience upgrades is essential to ensure equitable access to sustainable, affordable housing opportunities and to bolster the health of communities.

While it is promising to see that FHFA incorporated climate change in Objective 1.4 of the 2022-2026 strategic plans, more aggressive goals and guidance are needed regarding how the Enterprises should consider the impacts of climate change more thoroughly in fulfilling their mission. Specifically, FHFA needs to go beyond research and reporting to ensure measurable outcomes that promote equitable access to affordable, sustainable, and resilient housing. As such, FHFA’s climate strategies should also be incorporated into “Strategic Goal 2: Foster housing finance markets that promote equitable access to affordable and sustainable housing.” Means & Strategies FHFA should include:

* Require the Enterprises to submit plans by year-end 2022 proposing ambitious, targeted outcomes and specific ways to leverage their business models and products that (1) allow green mortgage products to finance cost-effective electrification upgrades in addition to energy and resilience upgrades, (2) make process updates to these products to enable them to be a standard offering in all qualifying mortgage transactions, and (3) adopt similar requirements to HUD and USDA for newly built homes to meet minimum energy performance standards.
* Oversee the implementation of these plans and ensure the Enterprises take meaningful actions and research to achieve goals and objectives.
* Require the Enterprises to quantify and disclose estimates of their portfolio-wide carbon emission and climate risk exposure and develop any additional plans to reduce both.

Existing financing tools, including single-family green mortgage products, remain an untapped market solution and, if streamlined and scaled, have the potential to deploy low-cost capital for decarbonization, energy, and resilience improvements to millions of American homes in the coming decade. Furthermore, expanding focus to financing newly built homes to meet minimum energy performance standards can ensure affordable financing for low-cost energy, decarbonized, and highly resilient housing to an estimated 15 million new units through 2050.

One of the fundamental ways Fannie Mae and Freddie Mac can evaluate access (Objective 2.1) is by increasing outreach. We request that FHFA encourage the Enterprises to increase outreach and loan purchases to energy-burdened areas of the United States and other underserved mortgage markets for the following reasons:

1. Energy-burdened areas are far more likely to have greater concentrations of low- and moderate-income families, communities of color, and underserved populations.
2. Transitioning existing mortgages to green mortgages and sponsoring new green financing mechanisms will alleviate some of the energy cost burdens for qualified borrowers and enhance their creditworthiness.
3. **Limited English Proficiency**

We greatly appreciate FHFA including Objective 2.1 (“Promote sustainable access to mortgage credit”), but believe that FHFA’s means and strategies of achieving this objective should explicitly prioritize *borrowers with Limited English Proficiency* (LEP). FHFA and the Enterprises have shown laudable leadership on improving language access in mortgage origination and servicing in the past; we encourage FHFA to rededicate itself to these efforts. The most important action FHFA could take is to instruct the Enterprises to require their lenders and servicers to collect and track language preference data for all loans purchased by the Enterprises, which could be achieved by making mandatory the Supplementary Consumer Information Form (SCIF). Given the close relationship between LEP status and national origin, improving access for the nearly 26 million LEP consumers in the United States would also help FHFA achieve Objective 2.2, advancing equity in housing finance.[[3]](#footnote-4)

1. **FHLBanks**

The language in #4 in Objective 2.1 should be strengthened to read (new language is italicized) “Ensure the FHLBanks serve each state in their district under the AHP and CIP programs,*work with CDFI members of the System to achieve mission goals* and use the FHLBanks’ Community Lending Plans to identify and seek to fulfill the needs of communities throughout the district, including tribal communities;” There has been some progress over the past several years in improving CDFI access to FHLBs’ capital, but challenges still remain. Some CDFIs have demonstrated their financial capacity and mission orientation to their FHLBank partners, but more work remains to be done to improve understanding and collaboration between CDFIs and FHLBs across the System. These efforts should continue because encouraging partnerships between FHLBs and their member CDFIs can greatly increase the reach and impact of the housing finance system.

1. **CDFI Preferred Product**

We recommend that FHFA make part of Objective 2.1 of your strategic plan to work with the Enterprises to add a CDFI preferred product that will meet low- and middle-income borrowers’ needs. This product should (1) allow exceptions for income limits, (2) credit exceptions, (3) increase seller concession amount, and (4) eliminate the limit on the CLTV, given that FHA does not have a limit. CDFIs have long demonstrated their special expertise in reaching underserved communities with loans that perform over time. There is a great need for the Enterprises to recognize this and help create a better secondary market for CDFI loans. For example, cdcb and Fahe are two CDFIs serving respectively the DTS High Needs Rural Regions, the colonias and Appalachia, which have met all the requirements to become Fannie Mae and Freddie Mac seller/servicers, yet most of the performing loans these two CDFIs originate are ineligible for sale to the Enterprises. Developing a CDFI preferred product would allow the Enterprises to better serve ***all*** underserved mortgage markets, not just rural markets or just DTS and EHF markets.

1. **Equitable Housing Finance**

We applaud FHFA’s creating a separate strategic planning process to address equitable housing finance and the racial wealth gap outlined under Objective 2.2 (“Advance equity in housing finance, including through compliance with fair lending laws and regulations”). Previously, these aims have not been prioritized by FHFA and hold great promise for underserved populations and markets. To achieve more equitable affordable housing opportunities, FHFA must set ambitious and measurable targets for itself and the Enterprises.

FHFA’s promising September announcement that Fannie Mae and Freddie Mac’s Equitable Housing Finance Plans would take effect by January 1 has still not been realized. The EHF plans are more than two months overdue, and the delay in implementing EHF plans undermines FHFA’s ability to address racial inequity in housing finance. We hope FHFA releases the EHF plans as soon as possible. Among the specific strategies to address racial homeownership and wealth gaps that we hope to see in the EHF plans:

* The Enterprises should incentivize lenders to offer race-conscious Special Purpose Credit Programs.
* Increase loan purchases in areas of concentrated poverty and of high opportunity under Residential Economic Diversity initiatives.
* Conduct fair lending assessments specifically on the Enterprises’ automated underwriting systems (AUS) and strategize less discriminatory alternatives (LDAs).
* Ensure mortgage decisions are both fair and sustainable for marginalized populations and markets.
* Pilot cash flow underwriting as a potentially better measure of financial stability than credit score, as well as expanded credit reporting to reach thin-file clients.
* Facilitate more refinancing opportunities for low-income, marginalized homeowners.
1. **Data Democratization**

Objective 2.3 acknowledges the central role that FHFA and its regulated entities play in controlling the most comprehensive data set for U.S. mortgage markets. Considering that the business models of your regulated entities are entirely reliant on Federal government guarantees, the public has a compelling interest in that data. A threshold question for FHFA’s strategic plan should be, to what extent should the quite substantial monetary value of that data, redound to the benefit of Enterprise and FHLBank shareholders or to the public that makes these businesses possible through government guarantees?

FHFA has few more consequential levers to create a more equitable U.S. housing finance market than broadening access to the regulated entities’ data. More rigorous examination of Enterprise and FHLBank data has enormous potential to identify ways to break down barriers to sustainable housing opportunities. For example, there is currently a dearth of information available on racial and economic disparities in housing finance. In the language of your draft strategic plan, to become a more reliable and transparent source of data, FHFA needs to implement these strategies:

* **Race/ethnicity data**. Publish accessible data broken down by race and ethnicity relating to lending practices, loss mitigation practices and outcomes, tenant screening, repayment options, and AUS acceptance and rejection rates.
* **Pilot data.** Make all available data on pilot programs public and accessible to evaluators.
* **Joint appraisal database**. Increase transparency of the Enterprises’ proprietary joint appraisal database. Stakeholders representing divergent ends of the continuum have previously weighed in urging FHFA to make the joint appraisal database public.[[4]](#footnote-5) We are aware that the Enterprises have thus far successfully used contested Privacy Act interpretations to keep this data as the exclusive property of one of our country’s most powerful duopolies and their shareholders. We also appreciate that there is great economic value in this information; FHFA should have concerns about giving that value away to the largest lenders. In any case, it strains credulity that a fair solution to joint appraisal database access, built-in conservatorship, is that the two secondary market duopolists have access to each other’s data, but no other market participant, regulator, or other stakeholders may view this trove of data with the potential to address the many well-documented shortcomings in the appraisal process. Surely, through FHFA’s strategic planning, you can devise a more equitable arrangement, considering whether the data might be available to regulatory bodies, if not the public at large. The bottom line is that FHFA’s strategic plan should err on the side of transparency and there is bound to be a more equitable way to resolve access than the status quo.
* **Data already disclosed**. Even if FHFA continues to allow this powerful duopoly to profit by maintaining exclusive access to the best U.S. appraisal data source, there is other data, *already disclosed* in Enterprise 10K supplements because of securities law requirements that could make FHFA a more reliable and transparent data source. FHFA should require the Enterprises to disclose this data in ways that would increase transparency into the relative risk of loan purchases from underserved markets. For example, the Fannie Mae 10K supplement demonstrates that in the multifamily market, manufactured housing loans and affordable housing loans have a serious delinquency (SDQ) rate substantially lower than the SDQ rate of the overall multifamily book.[[5]](#footnote-6) Analogous information is available for Fannie Mae’s single-family business and Freddie Mac’s business. We hypothesize that if FHFA required the Enterprises to slice this already-public data to show the SDQ rate of loans purchased in DTS, EHF, or other affordable criteria, the public would have much greater transparency into the actual risk of reaching underserved markets, strengthening the case that it is lower profitability, rather than credit risk, that most often drives Enterprise decisions not to reach the underserved markets.
1. **Manufactured Housing**

FHFA recognizes the importance of manufactured housing in affordable housing supply as part of bullet point 2 of Objective 2.4. As FHFA strategizes on how the Enterprises can increase the supply of low- and moderate-income affordable housing, we recommend that emphasis should be placed on manufactured housing initiatives and specifically, the chattel loan market. We recommend significantly increasing the Manufactured Housing Real Property (MHRP) purchase volumes for the Enterprises. With encouragement from FHFA, the Enterprises can create a shift in the market over the next three years.

Making conventional mortgage finance broadly available for unit loans in land-lease manufactured housing communities is also consistent with Fannie Mae and Freddie Mac’s mission of increasing the availability of affordable mortgage financing and should be an FHFA priority. FHFA should encourage the Enterprises when revisiting their DTS plans to significantly increase their target loan volumes in their 2022-2024 plans to confirm the shift toward mortgage-titled home purchases from higher-cost home-only loans. Likewise, access should not be restricted to only mortgage credit and allow for personal loans for manufactured housing or other pilots to be explored to expand low-income homeownership.

To reach the less mature, harder to serve chattel loan market, the Enterprises should plan a logical progression of actions that would build towards a standardized and more efficient market. The first step to serving the chattel market is to carry out the necessary rebooting of the previously completed outreach, research, and loan product development objectives. As the Enterprises expand their portfolios, collection of chattel data and consumer choices for chattel loans is essential to properly identify the most efficient ways to expand. In this market, the Enterprises must develop consumer protection guardrails, such as making housing counseling a mandatory component of chattel loans. As discussed above, first FHFA needs to strongly encourage pilots and new products in underserved markets, including manufactured housing.

1. **Emphasizing FinTech**

We commend FHFA for including Objective 2.5 because, like data, technology plays a critical role in reducing structural barriers to sustainable and affordable housing opportunities. We request that FHFA investigate these specific innovations that make buying and owning a home more accessible and efficient:

* Explore modernizing the single-family appraisal process to foster efficiency in mortgage markets and address barriers to equitable valuation;
* Explore opportunities to leverage non-traditional data, alternative approaches, and new technology in the mortgage underwriting process;
* Continue implementation of the final rule on the validation and approval of third-party credit scores model(s) that can be used by the Enterprises; and
* Research and explore opportunities for further incorporation of financial technology (Fintech) in activities of the regulated entities and other mortgage market participants.
* Require multifamily owners who get the Enterprises’ financing to give the option of free rent credit reporting to renters. Adopt secure, encrypted data processing and storage platforms based in the cloud that report on-time rent payments to the major credit bureaus.
* Continue to expand pilots related to sustainable access to credit by using bank account data, like the “positive rent payment history” feature[[6]](#footnote-7) being added to Desktop Underwriter (DU) Validation Service.
* Support appraisal and valuation reform by leveraging accurate data and technology to make fairer and faster appraisals (may want to consult services like TrueFootage).
* Explore ways to enable and incentivize small experiments and pilot projects.
1. **Supply**

FHFA must remain cognizant of the pervasive issue of housing supply. Inflation rates have steadily risen in recent months, with nearly a third of the Consumer Price Index being driven by high housing costs[[7]](#footnote-8) that consequently make addressing the supply shortages more expensive and less impactful. This inflationary pressure has an extremely regressive impact, hurting low- and moderate-income people and further driving the affordable housing supply deficit.

**Conclusion**

The proposed FHFA strategic plan offers promising ambition and objectives previously unaddressed in housing finance. Yet, there are a number of critical ways that FHFA needs to use its regulatory and conservatorship authorities more fully to create a better, more equitable U.S. housing finance system. The policy recommendations we suggest FHFA embrace would do a great deal more to address underserved market and affordable housing needs, in a manner that is also entirely consistent with FHFA’s safety and soundness mission. If you have questions or would like to discuss any of the ideas in this letter, please contact Daniel Janzow djanzow@lincolninst.edu or Jim Gray jgray@lincolnist.edu.

Thank you for considering our views.

Sincerely,

Center for Community Progress

Enterprise

Fahe

Grounded Solutions Network

Homeownership Alliance

Housing Assistance Council

Housing Partnership Network

Lincoln Institute of Land Policy

Local Initiatives Support Corporation

National Community Stabilization Trust

National Consumer Law Center (on behalf of its low-income clients)

National Housing Conference

National Housing Resource Center

NeighborWorks

Next Step

RMI

ROC USA

Stewards of Affordable Housing for the Future

1. [Freddie Mac’s annual report submitted on chattel, which indicated that significant progress had been made by 2018 and that Freddie Mac was ready to launch a pilot in 2019.](https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/2018-DTS-Reports/FreddieMac/FRE_MH_Chattel_B_2018.pdf) [↑](#footnote-ref-2)
2. [Intergovernmental Panel on Climate Change report (2022)](https://www.ipcc.ch/report/ar6/wg2/) [↑](#footnote-ref-3)
3. For additional information, see [Group Comments Re: Request for Input regarding the Enterprises’ Equitable Housing Finance Plans](https://www.nclc.org/images/pdf/foreclosure_mortgage/FHFA_Equitable_Hsg_Finance_Plans.pdf) (Oct 25, 2021), and [Letter to FHFA Encouraging Leadership on Language Access](http://www.stabilizationtrust.org/wp-content/uploads/2022/01/Language-Access-Letter-to-FHFA-Jan-2022.pdf) (January 12, 2022). [↑](#footnote-ref-4)
4. [Housing Policy Council and Nat’l Fair Housing Alliance comment letter on Fair Lending, Comment Request 2021-N-7 (Sept. 7, 2021).](https://www.housingpolicycouncil.org/_files/ugd/d315af_72eb9bd6e8c747be905387cda2c568d9.pdf) [↑](#footnote-ref-5)
5. [Fannie Mae Financial Supplement Q4 and Full Year 2021, p. 21 (Feb. 15, 2022).](https://www.fanniemae.com/media/42816/display)  [↑](#footnote-ref-6)
6. [Fannie Mae: Positive Rent Payment History in Desktop Underwriter (Feb. 2022)](https://singlefamily.fanniemae.com/media/28796/display) [↑](#footnote-ref-7)
7. [The White House: Housing Prices and Inflation (Sep. 2021)](https://www.whitehouse.gov/cea/written-materials/2021/09/09/housing-prices-and-inflation/) [↑](#footnote-ref-8)