Consumer Federation of America

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Re: Input on 2025-2027 Enterprise Housing Goals

October 27, 2024

To Whom it May Concern,

The Consumer Federation of America thanks you for the opportunity to comment on the Federal Housing Finance Agency's proposed 2025-2027 Housing Goals for Fannie Mae and Freddie Mac.

The Consumer Federation of America (CFA) is an association of non-profit consumer organizations established in 1968 to advance the consumer interest through research, advocacy, and education.[1] Today, nearly 250 of these groups participate in the federation and govern it through their representatives on the organization's Board of Directors. Our national advocacy work on housing has focused on affordable homeownership, equitable and fair housing finance, and the GSEs. CFA is also a member of the Underserved Mortgage Market Coalition (UMMC), through which it has engaged in direct dialogue with the Enterprises. This letter offers feedback on the proposed Housing Goals within single-family as well as FHFA's proposed regulatory changes.

Background: The Annual Housing Goals

First established in the 1992 Financial Safety and Soundness Act and updated in the 2008 Housing and Economic Recovery Act, the annual housing goals are a core means by which FHFA and the broader public track and hold the Enterprises accountable to their public purpose. As government-sponsored enterprises chartered by Congress, the Enterprises receive unique tax exemptions and government benefits, not in the least through an implied government guarantee for investors that became real during the 2008 Financial Crisis and has become an explicit guarantee since the GSEs' entrée into conservatorship. This public purpose includes "an affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families."[2]

[1] Consumer Federation of America. "About CFA." 2024. https://consumerfed.org/.
[2] "2025-2027 Enterprise Housing Goals," 89 Fed. Reg. 70,128 (August 29, 2024).

The Enterprises' overall share of the conforming mortgage market (which includes government-insured mortgages such as FHA) was 59 percent in 2023.[3] As such, the GSEs are not simply key market players in the secondary market, but through their secondary-market dominance, help set the very underwriting standards, credit availability and risk appetite, and mortgage product mix in the U.S. mortgage market at large. Most lenders will want to lend conforming to the Enterprises' standards, to quickly move mortgages off their books or at least retain the option of doing so.

As such, the Enterprises not only "lead the industry" in making mortgage credit available,[4] but their practices in turn help set the standards of the conforming mortgage market. CFA previously also called this is "circular relationship" between the Enterprises and the mortgage market: meaning that many new products and risk-pricing adopted by the Enterprises may in turn be adopted by fellow market participants.[5] Market innovation, then, often resets the very parameters of the overall market, not just Fannie and Freddie's share of it.

The Affordable Housing Goals themselves do not dictate specific innovative product terms, mortgage pricing, or underwriting standards. Rather, they are broad barometers for FHFA and the broader public on how well the Enterprises are serving underserved mortgage markets. Over time, the accountability and public oversight they offer, helps drive up overall market presence in these markets.

Outlook for 2025-2027 and Housing Finance Needs

The 2025-2027 Affordable Housing Goals are articulated at a time of deep housing distress for millions of U.S. families. Research has estimated a national housing shortage of anywhere between 1.5 and 5.5 million

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[3] "National Mortgage Database," (2023) as cited in "2025-2027 Enterprise Housing Goals," 89 Fed. Reg. 70,128 (August 29, 2024).
[4] "2025-2027 Enterprise Housing Goals," 89 Fed. Reg. 70,131 (August 29, 2024).
[5] Letter from Consumer Federation of America, National Community Stabilization Trust, and the National Consumer Law Center to Federal Housing Finance Agency about the Proposed Rule on the Enterprises' Housing Goals 2018-2020 (September 5, 2017). https://consumerfed.org/wp-content/uploads/2017/11/cfa-ncst-nclc-comment-on-RIN-2590-AA81.pdf

units.[6] Housing shortages have accumulated due to underbuilding since the Great Recession (when many builders went out of business)[7], demographic shifts including the coming of age of the large Millennial generation, as well as headwinds to affordable housing construction such as rising costs of labor and materials and strict local zoning regimes. Supply shortages are especially felt in the most affordable segments of our housing markets.

For first-time homebuyers in particular, the lack of inventory and high home prices have been aggravated by higher interest rates, following the historically low interest rates during the pandemic. While long-standing racial homeownership gaps slightly narrowed during the pandemic, today many Black and Hispanic would-be-homebuyers struggle to afford to get a foothold into homeownership and to afford even a moderately-priced home in their area.

The Affordable Housing Goals already articulated an expected easing in interest rates, based on the Federal Reserve's monetary policy in response to moderating inflation pressures. In September 2024, the Federal Reserve initiated its first cut – a higher-than-expected 50-basis points interest rate cut. While this update is not yet part of the FHFA's forecasting models and was done shortly after the release of this proposed rulemaking, we expect that FHFA will incorporate this new information in its final rulemaking and that this update will contribute to a more optimistic outlook for mortgage affordability and access.

As noted above, the Housing Goals are a means to an end – broad barometers of performance, rather than detailed plans on *how* to ensure underserved markets have access to the kinds of mortgage credit and product mix they need. The Duty to Serve and Equitable Housing Finance Plans offer more of these detailed strategies and programs.

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[6] McCue, D., & Huang, S. (2024, January 29). *Estimating the National Housing Shortfall*. Joint Center for Housing Studies of Harvard Universities. https://www.jchs.harvard.edu/blog/estimating-national-housing-shortfall

[7] Erdmann, K. (2018). *Housing Was Undersupplied during the Great Housing Bubble*. Mercatus Center at George Mason University. https://www.mercatus.org/research/policy-briefs/housing-was-undersupplied-during-great-housing-bubble

In addition, FHFA itself also exercises broad authority to help the Enterprises realize their public purpose, an authority that has become even more pronounced under conservatorship. Examples include the ways FHFA decided to update the loan level price adjustment (LLPA) matrices last year, which updated risk-based pricing to better account for actual risk.[8] We urge FHFA to do more work here to truly account for the Enterprise risk-reduction offered through mandatory private mortgage insurance (PMI) and additional credit protection through Credit Risk Transfers in the capital market, and to ensure that consumers are not penalized and charged twice when they come in with a low down payment.

Mortgage credit availability, and the ability to reach underserved markets and consumers, is also impacted by the new credit score policies adopted by FHFA, including the approval of FICO 10T and VantageScore 4.0, as well as permission to use bi-merge rather than traditional tri-merge credit reporting.[9] We think that credit score innovation and competition, such as recent innovations that help consumers count rental payment history towards credit building, will be important to help safely broaden access to mortgage credit. Innovations that contribute to meeting housing goals, then, not only come from the Enterprises themselves, but also from their regulator FHFA.

CFA's Feedback and Recommendations

- ***CFA Urges FHFA to Set Ambitious Housing Goals that Drive the Enterprises to Lead the Market***

We urge FHFA to remain ambitious in setting housing goals for the Enterprises and help motivate them to continue to *drive and drive up* the market rather than perform at or slightly below market levels. The single-family low-income home purchase goal went down from a goal of 28

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[8] Fannie Mae. "New Loan-Level Price Adjustment Framework" (March 22, 2023). https://singlefamily.fanniemae.com/media/33241/display
[9] Federal Housing Finance Agency. "Credit Scores." https://www.fhfa.gov/policy/credit-scores

percent in 2022-2024 to 25 percent -- a number below the market forecast (though forecasting here currently has high margin of error). But given the Fed's September 2024 50-basis point interest-rate cut, which has not yet been incorporated in the current forecasts, as well as greater clarity on the Fed's roadmap for future rate cuts, we recommend setting the goal here at 26 or 27 percent. This more ambitious goal would slightly exceed the performance of the conventional conforming market overall and would continue to motivate the Enterprises to lead the market.

Similarly, if the goal of Enterprises is to lead the market, the single-family minority census tracts home purchase subgoal should be set at 13 percent rather than 12 percent. Given the growing diversity of the nation's population, we expect an overall expansion of the share of census tracts (including below 100 AMI) where at least 30 percent of the population identifies as non-white. For example, according to Census data, the share of individuals identifying as non-Hispanic white decreased from 63.7 percent in 2010 to 57.8 percent in 2020.[10] Given this broader trend, we advise FHFA to continue ambitious goal setting to ensure that Enterprises pursue innovations that help them drive the overall market.

- ***FHFA Should Pursue Additional Tract Criteria to Keep the Single-Family Low-Income Census Tracts Home Purchase Subgoal Useful***

FHFA is currently not actively pursuing the single-family low-income census tract home purchase subgoal, by setting the benchmark goal at only 4 percent -- well below historical and projected performance in these markets. FHFA writes that it chose to do so in order to address concerns around furthering gentrification and displacement, by spurring mortgage origination to high-income borrowers moving into these census tracts.

But there may be other ways to pursue this subgoal, while addressing gentrification concerns. This subgoal could use additional census tract criteria, to ensure mortgage credit is indeed made available in

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[10] Jensen, E., et al. (2021). *The Chance That Two People Chosen at Random Are of Different Race or Ethnicity Groups Has Increased Since 2010*. United States Census Bureau. https://www.census.gov/library/stories/2021/08/2020-united-states-population-more-racially-ethnically-diverse-than-2010.html

underserved, disinvested markets (where gentrification is not happening or less of a concern). Think about rural areas, smaller post-industrial legacy cities, and poor urban neighborhoods (often those far from downtown) where mortgage credit remains scarce. Many of these areas need better access to small-dollar mortgages (below $150k), as home values remain depressed. Decades of neglect and underinvestment in housing by landlords and lower-income homeowners, as well as the impacts of housing vacancy, have also generated the need for renovation loans. Both Enterprises currently offer Renovation products as part of Duty to Serve, but they are used only at a very small scale. Another option to better tailor this subgoal, as also articulated in the comment letter by NCRC, would be to limit borrower income levels in some low-income tracts. For example, in tracts that are experiencing rapid home price growth (indicating gentrification), only loans to low-income borrowers would count.

We urge FHFA to closely examine tailoring this subgoal to truly help scale the impact on underserved, low-income markets.

- ***CFA Rejects the Need for FHFA's Proposed "Enforcement Factors" as it Would Weaken the Power of Benchmark Goals***

FHFA already has broad discretionary authority to determine whether a housing goal was feasible for the Enterprises and to decide whether to require them to submit a housing plan: "If FHFA determines that a housing goal was not feasible for an Enterprise to achieve, then the statute and regulation provide for no further enforcement of that housing goal for that year."[11] FHFA should consider unexpected disruptions to the market, when exercising this authority.

Currently, the dual accountability of benchmark goals and retroactively determined market goals helps drive Enterprises to try to be ahead of the market and innovate. FHFA is able to set benchmarks at an ambitious pace to help drive the market up over time, given the "circular relationship" between the Enterprises and the overall market. CFA disagrees with FHFA's proposed "Enforcement Factors," as we do not

[11] "2025-2027 Enterprise Housing Goals," 89 Fed. Reg. 70,129 (August 29, 2024).

think that weakening the enforcement power of benchmark goals is desirable.

FHFA's proposal, in effect, would only hold the Enterprises accountable to meet a share *lower* than the market level ("the market level minus 1.3 percentage points for the low-income home purchase goal; (ii) the market level minus 0.5 percentage points for the very low-income home purchase goal; or (iii) the market level minus 1.3 percentage points for the low-income refinance goal."[12] While the Enterprises only have access to market performance *after the fact*, we believe that with this change, market levels could end up becoming the new de facto goal. Unless we believe that the market somehow already optimally serves underserved markets and lower-income households, the Enterprises' performance should not be pegged to how the overall market performs alone.

In addition, as also noted in NCRC's comment letter, if economic conditions remain challenging and the Enterprises continue to miss benchmark goals, FHFA can use housing plans as an opportunity for stakeholders to collaborate with the GSEs and jointly seek solutions to improve their performance in underserved markets, rather than as a punitive measure.

- ***CFA Supports the Specific Articulation of Housing Plan Enforcement Provisions, to Better Describe the FHFA's Enforcement Authority***.

We think greater transparency will aid FHFA's in its authority as a regulator and help the public better understand these powers too.

Thank you for the opportunity to comment. If you have questions, feel free to contact CFA's Director of Housing, Sharon Cornelissen (scornelissen@consumerfed.org).

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[12] "2025-2027 Enterprise Housing Goals," 89 Fed. Reg. 70,130 (August 29, 2024).