September 5, 2017

Alfred M. Pollard, General Counsel,
Attention: Comments/RIN 2590-AA81
Federal Housing Finance Agency, Eighth Floor
400 Seventh Street, S.W.
Washington, D.C. 20219

Dear Mr. Pollard:

The National Community Reinvestment Coalition (NCRC) thanks you for the opportunity to publicly comment on the Federal Housing Finance Agency's (FHFA) proposed 2018-2020 Enterprise Housing Goals. NCRC has dedicated itself to the mission of building and protecting wealth in America's underserved communities for over 25 years.

Since the financial crisis, we have become increasingly concerned about the nation's growing racial wealth gap as well as the state of economic mobility. For millions of low- and moderate-income families and those living in underserved communities, a home is the single most important financial asset they will ever own, and for minority households, it is a significant source of household wealth.[1] Overall, housing equity makes up about two-thirds of all wealth for the typical (median) household, with the racial wealth gap being largely a housing wealth gap.[2] There is also little doubt that economic mobility is linked to one's starting point in life (e.g. the wealth of one's parents, the economic and social health of the community in which one is born).[3] Policy questions related to the accessibility and affordability of mortgage credit are central to how low- and moderate-income families access the wealth-building opportunity of homeownership and ascend the ladder of economic mobility. They are also critical to neighborhood stabilization.

This rulemaking represents an opportunity for the FHFA to fulfill the tremendous potential of the Enterprises' housing goals and to ensure the Enterprises exert market leadership to address the

[1] Herbert, C. E., McCue, D. T., & Sanchez-Moyano, R. (2013). Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?). *Harvard University, Joint Center for Housing Studies*. Retrieved from http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/hbtl-06.pdf

[2] Janelle Jones, *The racial wealth gap: How African-Americans have been shortchanged out of the materials to build wealth.* See also, *The Ever-Growing Gap: Without Change, African-American and Latino Families Won't Match White Wealth for Centuries*, Prosperity Now (August 2016); and Protect Our Progress: *The State of Black of America,* The National Urban League (2017).

[3] Ray Boshara and David Buchholz, *Economic Mobility: An Overview*, The Federal Reserve Bank of St. Louis. Retrieved from: https://www.stlouisfed.org/~/media/Files/PDFs/Community-Development/EconMobilityPapers/Intro/EconMobility_Introduction_508.pdf?la=en

most pressing needs across the single-family market. In conservatorship, the Enterprises' role in facilitating affordable housing has been minimal and the goals are at their lowest levels since numeric benchmarks were first established. Even so, the Enterprises' have also failed to achieve various goals on numerous occasions.

- The current conservatorship approach to the housing goals undermines the statutory mandate that goal-setting consider the "ability to lead the market in making credit available". Conservatorship goal-setting and compliance has, in fact, resulted in the Enterprises failing to meet several affordable housing goals with impunity and even when FHFA determined it was feasible to do so. It has also resulted in both Enterprises repeatedly lagging the conforming, conventional market.
  - Setting the 2018 -2020 housing goals at the "average of the market forecast" undermines the mission of the Enterprises and will not ensure that they use a greater share of their post-crisis profitability to improve guarantee fee pricing and to take other necessary policy steps to improve the affordability and accessibility of mortgage credit.
  - NCRC recommends a phased approach to setting the low-income home purchase (LIP) goal for 2018-2020. We recommend a 2018 goal of 28 percent with a one percent increase to the LIP goal in 2019 and 2020. We recommend a very low-income home purchase goal (VLIP) of ten percent. These goals are set above the average market forecast and are more consistent with market leadership by the Enterprises.
  - We recommend a 17 percent low-income areas (LIA) goal and urge FHFA to undertake a mid-term review, scale back the current LIA goal period to two-years, and pilot temporary bonus points/adjustment factors or Duty to Serve credit to address concerns about Enterprise acquisitions in low-income and high minority communities qualifying for LIA goal credit.

- The current goals-setting is also failing to adequately consider "National housing needs" and "Economic, housing, and demographic conditions, including expected market developments" or incent the Enterprises to respond to the scale needed to address the most pressing challenges facing underserved communities.
  - The Enterprises' current mortgage products, investments and outreach in underserved markets are an insufficient response to a growing racial wealth gap, declining economic mobility, rising segregation by income and an affordability crisis for low- and moderate-income households across and within many metro areas.

A. The Two-Part Approach to the Housing Goals Provides Little Incentive for Market Leadership

In conservatorship and since the prospective "benchmark" and retrospective "market" approach to the housing goals was adopted in 2010 – where the Enterprises comply with their housing goal obligations by meeting either the prospective "benchmark" level or a retrospective "market" level - Fannie Mae and Freddie Mac have repeatedly failed to purchase enough loans to meet their housing goals. Even as the Enterprises have returned to profitability and the broader market has experienced some recovery, the Enterprises have performed poorly. They have also lagged the market in making mortgage credit available more than they have led it.

Since 2010, Fannie Mae has formally met their housing goals by meeting either the benchmark or the market metric 79 percent of the time; has met both metrics 29 percent of the time and has lagged the market 33 percent of the time; Freddie Mac has met either the benchmark or the market metric 57 percent of the time; has met both metrics 18 percent of the time and has lagged the market 21 percent of the time (See Table 1). The current conservatorship approach to both goal-setting and compliance neither appropriately balances the considerations included in the law nor reflects the law's intent: to maximize access to credit for creditworthy, low-income borrowers consistent with a sound financial condition.

Table 1

AHG Report Years	Fannie Prospective "Benchmark"	Fannie Retrospective "Market"	Freddie Prospective "Benchmark"	Freddie Retrospective "Market"
Low-income purchase goal				
2016*	0	N/A	0	N/A
2015	0	0	0	0
2014	1	1	0	0
2013	1	0	0	0
2012	1	0	1	0
2011	0	0	0	0
2010	0	0	1	1
Very low income purchase goal				
2016*	0	N/A	0	N/A
2015	0	0	0	0
2014	0	1	0	0
2013	0	0	0	0
2012	1	0	1	0
2011	0	0	0	0
2010	0	0	0	0
Low-income area home purchase: Subgoal				
2016*	1	N/A	1	N/A
2015	1	1	1	0
2014	1	1	1	0
2013	1	0	1	0
2012	1	0	1	0
2011	0	1	0	0
2010	0	1	0	0
Low-income refinance goal				
2016*	0	N/A	1	N/A
2015	1	0	1	1
2014	1	1	1	1
2013	1	1	1	1
2012	1	0	1	0
2011	1	0	1	0
2010	0	0	1	1
Score	50%	33%	54%	21%
% Pass both Prospective and Retrospective	29%		18%	
% Pass either Prospective or Retrospective	79%		57%	

Note: 1 = goal is met, 0 = goal is not met, N/A = Final 2016 Market data is not yet available
***This is an update of an Urban Institute's table appearing in: Assessing the Proposed Housing Goals, Urban Institute (October 2014)(see Table 1)**

In 2010, when the two-part approach was proposed, FHFA recalled the legislative history of the housing goals. The housing goals law stemmed from a concern that Enterprise purchases had not kept pace with market originations of mortgages to low- and moderate-income borrowers.[4] What was a concern in 1992, is also a fact today, the Enterprises in conservatorship are not keeping pace with market originations - in many instances simply matching or lagging the goal-qualifying segments of the market as well as the broader conventional market in making credit available for low-income and minority borrowers and communities.

In the early 1990's, Congress determined that, even with Fannie Mae's 30 percent benchmark in place, the Enterprises' mortgage purchase activities were not adequately meeting credit needs in underserved markets. And so, in 1992, Congress enacted the Federal Housing Enterprises Financial Safety and Soundness Act, once again charging the Department of Housing and Urban Development with establishing and enforcing numeric housing goal targets.[5] According to the

[4] S. Rep. No. 102-282, at 10-11 (1992). Federal Register /Vol. 75, No. 38 at 9035.
[5] GAO Report 98-173

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1992 Act's legislative history, it was expected that the Enterprises would "lead the industry" in making mortgage credit available to targeted borrowers, and that the Enterprises would have to "stretch" to meet the goals.[6] Neither FHFA's proposed 2018-2020 low-income home purchase goal "near the average of its market forecast" nor the agency's very low-income home purchase goal "near the market forecast" encourage market leadership by the Enterprises.

1. Strengthening the Current Approach to Goal-Setting

NCRC's 2014 comments to the 2015-2017 goals laid out a number of reasons why we believe the conservator's current approach to the goals is inconsistent with the statute.[7] Notwithstanding continuing concerns about the current approach, we agree with the comments submitted by the Center for Responsible Lending and others, that the two-part approach could be improved by requiring the Enterprises to meet ***both*** the benchmark and the market metrics. Additionally, meeting of the market metrics and by how much the GSEs exceed the market should be a significant factor in evaluating the GSEs' performance on a housing goal.

2. *Enforce the Goals*

FHFA also has the statutory authority to enforce compliance with the goals. While we commend FHFA for placing Freddie Mac on a housing plan in 2016 for repeatedly missing housing goals that were deemed feasible to meet, we urge FHFA to undertake formal rulemaking to implement 12 U.S.C. 4566 (c)(2) and (c)(7). Specifically, FHFA should set out standards for a housing plan, including regular progress reports and an opportunity for public review and comment. We are concerned that FHFA did not open the Freddie Mac housing plan for public review and comment. We believe the housing plan process should be more transparent and should receive the input of affordable housing advocates and other intermediaries who have substantial experience in serving underserved borrowers and communities. It is also difficult to hold an Enterprise accountable without more detail on the corrective steps that Enterprise will take to meet their goals.

We also believe FHFA should clarify under what circumstances civil penalties will be assessed and the extent and amount of those penalties. At a minimum, a final determination that an Enterprise has failed to meet a goal *that was feasible to meet* should trigger a series of enforcement actions by FHFA, and a repeated failure should trigger civil penalties.

3. *Two-year Goal Setting*

[6] S. Rep. No. 102-282.
[7] NCRC comment retrieved at: http://www.ncrc.org/images/PDFs/ncrc-comment-enterprise-housing-goals-oct-2014.pdf

More broadly, FHFA should consider establishing two-year goals instead of three year goals. Our analysis of the market estimation model's past performance indicates that underestimation of the market is at its most severe in the agency's third-year forecasts, which FHFA concedes involves a much greater degree of uncertainty. Due to this uncertainty and the harm caused by a market underestimation's ability to frustrate the purpose of affordable housing goals, NCRC recommends the agency's final rule making cover only a two-year period, 2018 and 2019, rather than the currently proposed three years.

B. A LIP goal set at 30 percent by 2020 and a VLIP goal of 10 percent

A three-year phase-in of the LIP goal at 30 percent sets a "stretch" target consistent with the Enterprises exercising market leadership and maximizing access to creditworthy, low-income borrowers without impacting safety and soundness. Setting such a target will encourage the Enterprises, even in conservatorship, to make a greater effort to meet the nation's most pressing affordable housing needs."

A VLIP goal of ten percent sets a "stretch" target more consistent with the Enterprises exercising market leadership. Since 2013, the performance of both Enterprises has fallen below the VLIP benchmark and the market levels. FHFA indicates a number of factors affecting the ability of the Enterprises to meet their goals, including affordability challenges facing borrowers. We believe the GSEs are in a unique position to respond to some of the affordability challenges in the single-family market. In Section D, we outline a series of policy measures the Enterprises can take to facilitate better access to credit.

C. Recommend a LIA Subgoal of 17 percent & That the Agency Address Other Market Developments

A LIA goal of 17 percent sets an above average target within the confidence interval more consistent with the Enterprises exercising market leadership and pushing to maximize access to creditworthy, low-income borrowers consistent with a sound financial condition. FHFA should also take a number of steps in response to its research into the LIA goal.

FHFA has noted that borrowers with higher incomes have made up an increasing share of the mortgage market in the low-income areas, with a similar trend among borrowers residing in high minority census tract as well. FHFA has noted that this particular subgoal may encourage the Enterprises to focus on purchasing loans for higher income households in low-income and high-minority areas, and the agency has expressed concerns about the impact of rising housing costs on existing households in lower-income or higher-minority areas.

1. *Undertake a mid-term review, scale back the current goal period to two-years and pilot temporary bonus points/adjustment factors or Duty to Serve credit*

Given the FHFA's research about the LIA goal as well as other research finding concerning trends in low-income and high minority census tracts, the agency could undertake a mid-term review of the LIA goal. FHFA should review Enterprise acquisitions and whether the goal definition is appropriately targeted, given on-going developments in the broader market. The agency should also scale-back this goal to a two-year period (see Section A.3 above) and invite public comments on how Enterprise acquisitions can better serve the most underserved borrowers in low-income and high minority communities. While the review is underway, FHFA could pilot temporary bonus points/adjustment factors to incent lending to more underserved borrowers in low-income and high minority census tracts (see Section D.5 below) or consider Duty to Serve credit for loan purchases for lower-income households (e.g. those below 80 percent of area median income within a low-income, high-minority census tract.)

FHFA research about the LIA goal is of concern because there is some evidence of increasing segregation in housing by income. Between 2000 and 2015, the share of the poor population living in high-poverty neighborhoods rose from 43 percent to 54 percent, with recent growth in high-poverty neighborhoods occurring in suburban and rural communities.[8] This pattern is of particular concern given the growing research linking one's neighborhood to one's prospects for economic mobility.[9] There are also widespread concerns about a growing affordability crisis in the country's most expensive markets. Disparities in home price appreciation both across and within markets are making entire metro areas unaffordable to low- and moderate-income households.[10]

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[8] *The State of the Nation's Housing 2017,* Joint Center for Housing Studies of Harvard University, (June 2017). See p. 6. Retrieved here: http://www.jchs.harvard.edu/research/state_nations_housing. The study also found that the number of high-poverty neighborhoods rose from 13,400 to more than 21,300. Although most high-poverty neighborhoods are still concentrated in high-density urban cores, their recent growth has been fastest in low-density areas at the metropolitan fringe and in rural communities.

[9] For example, see research by: Raj Chetty, Stanford University, *Improving Opportunities for Economic Mobility: New Evidence and Policy Lessons,* Federal Reserve Bank of St. Louis. Retrieved from: https://www.stlouisfed.org/~/media/Files/PDFs/Community-Development/EconMobilityPapers/Section1/EconMobility_1-1Chetty_508.pdf?la=en.

[10] Ibid, p. 11. At the same time, the growing demand for urban living has led to an influx of high-income households into city neighborhoods. While this revival of urban areas creates the opportunity for more economically and racially diverse communities, it also drives up housing costs for low-income and minority residents. The gap between home prices in low- and high-cost markets continues to grow. In 2000, the median home value in the nation's most expensive housing market was only 6 times higher than that in the least expensive. In 2016, that multiple had jumped to more than 11.

The Enterprises have also tended to mirror the primary market by favoring loans associated with more affluent borrowers of any race and ethnicity.[11] While the current definition of the low-income areas goal has done a better job of directing purchases to low-income and minority communities compared with the early broader definitions, especially from a geographic perspective, they do not guarantee that the GSEs serve the most underserved of the underserved, especially when it comes to communities of color.[12]

D. National Housing Needs as well as Economic, Housing and Demographic Conditions Warrant Stronger Policy Action by the Enterprises

A strong benchmark that is the result of good data, modeling, and analysis, and that stretches the Enterprises is the most critical component to the FHFA fulfilling its statutory obligations. However, the Enterprises must take critical policy steps to increase the likelihood they will meet their goals for this next rulemaking period. There are "National housing needs" and "Economic, housing, and demographic conditions, including expected market developments" that warrant more robust policy action by the Enterprises. As Fannie Mae aptly noted in 2010 comments, the market leadership required to be considered in FHFA's goal-setting pursuant to 12 U.S.C 4562(B)(iv) should also encompass "the ability of the Enterprises to help address the market's most pressing concerns".

1. *Increased Profitability at the Enterprises & Market Leadership on Affordability in the Conventional Market*

Since 2013, the Enterprises have been even more profitable than they were before the financial crisis. Some of those increased profits should be used to make conventional mortgage credit more affordable for underserved borrowers and communities by reducing their guarantee fee pricing, loan-level price adjustments and increasing their level of average cost pricing.

Between 2014 and 2016, Fannie Mae has reported over $37 billion in net income (including $23.8 billion in single-family net income), compared to $16.9 billion between 2002 and 2004 (including $7 billion in single-family). Freddie Mac reported $22 billion between 2014 and 2016 compared to $17.4 billion between 2002 and 2004 (including $5.5 billion in single-family). Some of these increased profits post-crisis should be used to improve access to conventional

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[11] Zonta, Michela, *Do the GSEs Meet the Credit Needs of Underserved Communities of Color?* HUD Cityscape (2015). Retrieved from: https://www.huduser.gov/portal/periodicals/cityscpe/vol17num3/article11.html. The study also found that: The likelihood of the GSEs purchasing loans issued to African-American and Hispanic borrowers, in general, has been much less than in the case of [Asian/Pacific Islander] borrowers. And, while the Enterprises' performance has improved over time in Hispanic markets, it has worsened further in African-American markets, after controlling for all other variables, including income levels. Following the Housing and Economic Recovery Act (HERA), the GSEs were, on average, 49 percent less likely than the primary market to hold loans issued to African-American borrowers in the post-HERA period.

[12] Ibid.

mortgage credit for creditworthy borrowers across the credit score spectrum. Borrowers that have historically qualified for conventional mortgage credit and often on more favorable loan terms are today being priced out of the conventional market by the extent of risk-based pricing[13] and "boxed out" by the extraordinary credit standards – the tight credit box[14]. Low- and moderate-income families and minorities with prime profiles have been far more reliant on nonconventional mortgage credit post-crisis[15] that is often more expensive over the life of the loan.

FHFA's 2017 Scorecard called on the Enterprises *to work to increase access* to single-family mortgage credit for creditworthy borrowers, including underserved segments of the market. The FHFA Director also noted that while the crisis-era abuses in lending "have largely been addressed through regulatory reforms and business changes throughout the mortgage market", he acknowledged "the broad concern that the market is not yet supporting access to credit for the full spectrum of creditworthy borrowers" and that "average credit scores for purchase loans at the Enterprises still remain historically high…crowded at the top of the credit box."

In his October speech, he also noted that 2015 HMDA data showed "modest gains" for African American and Hispanic borrowers but acknowledged that overall home ownership for these groups remain low. Purchase loans for African American borrowers increased from 4.9 percent of the market in 2014 to 5.2 percent in 2015. Similarly, the percentage for Hispanic borrowers increased from 7.5 percent to 7.9 percent. In contrast, Freddie Mac's acquisitions for both African- American and Hispanic purchase loans lagged the conventional, conforming market in both 2014 and 2015. Fannie Mae mirrored the market for African-American purchase loans, but led the market for Hispanic purchase loans in both 2014 and 2015.

Behind the historically low homeownership statistics and the missed housing goals are creditworthy families who have not been able to access the wealth-building opportunity of homeownership or enjoy full mobility. Setting the proposed goals at the average of the market forecast does not sufficiently incent the Enterprises to take the necessary policy steps to expand opportunities for homeownership.

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[13] Michael Calhoun and Sarah Wolff, *Who Will Receive Home Loans and How Much Will They Pay?* June 2, 2016.
[14] *Squeaky-clean loans lead to near-zero borrower defaults–and that is not a good thing,* Urban Institute, August 31, 2016.
[15] Neil Bhutta and Daniel R. Ringo, *Residential Mortgage Lending from 2004 to 2015: Evidence from the Home Mortgage Disclosure Act Data,* Federal Reserve Bulletin (2016). Though down from their peak in 2009 and 2010, Table 4 shows that black and Hispanic white borrowers are much more likely to use nonconventional loans (FHA, VA, RHS, and FSA loans) than conventional loans compared with other racial and ethnic groups. In 2015, among home-purchase borrowers, 70 percent of blacks and 63 percent of Hispanic whites took out a nonconventional loan, whereas about 36 percent of non-Hispanic whites and just 17 percent of Asians did so.

2. *Adjusting GSE Pricing to Alleviate the Increase of Private Mortgage Insurance & Other Affordability Issues*

Among the affordability challenges facing underserved borrowers, FHFA identifies the relative affordability of private mortgage insurance (PMI), for example. FHFA's Private Mortgage Insurer Eligibility Requirements (PMIERS), finalized in 2015, require mortgage insurance companies to hold more capital and to calculate capital based on the credit quality of the individual loans they insure. In response, private mortgage insurers instituted more granular pricing and increased premiums for some market segments.[16] For many low-income borrowers, FHA insurance is more affordable than private mortgage insurance up-front. FHFA could address this affordability challenge by eliminating or lowering their loan-level price adjustments and guarantee fee pricing for those low-income borrowers affected by the premium increases. The Enterprises' – with their national presence and post-crisis profitability – are best equipped to institute a greater level of average-cost pricing. The more than 250 percent increase in the guarantee fees since 2009,[17] increasing premiums charged for private mortgage insurers, and the overall extent of risk-based pricing driving that cost of mortgage credit are significant barriers to low- and moderate-income and minority borrowers accessing conventional mortgage credit.

3. *Expand Offering of Affordable and Sustainable Mortgage Products*

FHFA could also address affordability challenges by using their substantial underwriting expertise and knowledge of the mortgage market to customize products that respond to lending gaps in the market. Early in the conservatorship, new products may not have been warranted, but the need to meet credit needs in the market is now great.

The Enterprises have offered a variety of products that performed well through the financial crisis that they should offer now to address identified affordability issues. The conservatorship has inhibited the Enterprises from exercising greater market leadership on affordability and introducing more affordable products into the market. For example, the Enterprises have developed and/or offered: sweat equity mortgage products, products for workforce housing, Native American products customized to tribal lands; working mortgages that allow faster pay-off; modifiable mortgages; products for those with disabilities; mortgage products that include mortgage cancellation insurance. Greater product variety that addresses the affordability challenges today's borrowers face can help maximize access to credit consistent with prudent risk management. The GSEs have substantial knowledge about those products that can work consistent with safe and sound lending. Accompanying the expanded product offerings with a

[16] Ibid. 14
[17] Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2014, FHFA (June 2015); Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2015, FHFA (August 2016)

requirement of housing counseling would also ensure such lending is sustainable for borrowers and safe and sound for the Enterprises.

4. The Importance of Outreach to Key Demographics & Partnerships

Both Fannie Mae and Freddie Mac have a history of working with and training effective intermediaries that serve families of modest means and minorities. The Enterprises have partnered more with local nonprofits in the past. They have also invested in Community Development Financial Institutions (CDFIs) to facilitate affordable housing. They should do both to a greater degree going forward. The Enterprises, where appropriate for example, might have donated a property to a local community group even though that donation would be considered disposing of an asset below its market value. In conservatorship, such a transaction now requires advanced consent of the U.S. Treasury.

In conservatorship, both Enterprises have partnered less and spent millions less on outreach in underserved communities. When the Enterprises partner with effective intermediaries and community-based organizations - minority mortgage brokers and realtors, minority mortgage lenders, churches, trade associations, and other organizations that reach the nation's most underserved borrowers and communities – they are building local homeownership capacity and helping facilitate access to sustainable credit in low- and moderate-income and minority communities. FHFA acknowledges key demographic trends in their notice, including the growth of minority families. FHFA's goal-setting should incent the Enterprises to expand their marketing and outreach and partnerships in the nation's most underserved communities, given the substantial affordable housing needs and challenges and demographic trends.

5. Reinstate temporary bonus points and/or a temporary adjustment factors

FHFA should reinstate temporary bonus points to facilitate better and more targeted lending to lower-income households in low-income and higher-minority areas. *Duty to Serve credit may also overlap, work in tandem, or work in lieu of temporary bonus points to incentivize lending to lower-income households in LIA census tracts*. Congress chartered the Enterprises to create liquidity in the secondary market knowing that demand in the secondary market is actually what drives demand and production in the primary market. By using points and temporary adjustment factors to drive demand for a broader spectrum of loans in the secondary market, credit will expand in the primary market.

There is precedent for the Enterprises to receive bonus credits to incentivize specific purchases. The Housing Goals in 2000 provided for the award of temporary bonus points (double credit) toward the Housing Goals for both Enterprises' mortgage purchases that financed single-family, owner-occupied 2-4 unit properties. These incentives were created to encourage the Enterprises to meet underserved credit and financing needs, and with the expectation that the Enterprises would work to develop their purchasing strategies.

The Department of Housing and Urban Development reviewed the impact of this temporary bonus and found that both Enterprises increased their financing of units targeted by the bonus points and the temporary adjustment factors. In fact, that study found with respect to small multifamily purchases, Fannie Mae purchased loans at 32 times their pre-incentive levels, and Freddie Mac's purchases increased 61 times their pre-incentive level. [18] Fannie Mae and Freddie Mac's purchases of owner-occupied 2-4 units increased 31 and 37 percent respectively.[19]

The conventional mortgage credit market remains extraordinarily tight. Credit score requirements remain at historic highs and are shutting out even those borrowers with prime credit profiles. The extraordinary credit standards are reflected in the Enterprises' purchases: 77 percent of their acquisitions in 2015 were for borrowers with an average credit score at or above 720.[20] However, 40 percent of all FICO scores nationally fall below 700 and a relatively small share of new mortgages are being originated to that share of creditworthy borrowers.[21] Across the mortgage market, the Urban Institute has estimated that tight credit standards have prevented 6.3 million mortgages between 2009 and 2015 when compared with standards during historical periods of safe lending.[22] Further, borrowers who took out mortgages between 2011 and 2015 are a historical anomaly, experiencing nearly zero defaults.[23] A near-zero-default environment is clear evidence that the Enterprises should assert greater market leadership in opening up the credit box for borrowers with less-than-perfect credit.

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[18] Paul Manchester, Effectiveness of HUD's Housing Goal Incentives for Freddie Mac and Fannie Mae: Small Multifamily & Certain Single-Family Rental Properties, May 30,2006, available at http://www.huduser.org/Publications/PDF/AREUEA_Presentation.pdf

[19] id

[20] FHFA, *Fannie Mae and Freddie Mac Single-Family Guarantee Fees* (August 2016). See Table 3. Retrieved from: https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/GFee_Report_FINAL.pdf

[21] Counselor Antonio Weiss, Assistant Secretary for Economic Policy Karen Dynan, *Housing Finance Reform: Access and Affordability in Focus*, Medium (October 26, 2016). Retrieved from:

[22] Bing, Bai, Goodman, Laurie and Zhu, Jun. *Overly tight credit killed 1.1 million mortgages in 2015*, Urban Institute (November 21, 2016). Retrieved from: http://www.urban.org/urban-wire/overly-tight-credit-killed-11-million-mortgages-2015

[23] Goodman, Laurie. *Squeaky-clean loans lead to near-zero borrower defaults—and that is not a good thing*, Urban Institute (August 31, 2016). Retrieved from: http://www.urban.org/urban-wire/squeaky-clean-loans-lead-near-zero-borrower-defaults-and-not-good-thing. The Study found that: From 1999 to 2004, roughly one-third of Fannie Mae–guaranteed borrowers had FICO scores below 700, another third had FICO scores from 700 to 750, and the final third were above 750.From 2011 through Q1 2015, less than 10 percent of borrowers had FICO scores below 700, 22 percent were from 700 to 750, and a staggering 69 percent were above 750. The numbers are very similar for Freddie Mac.

There is also an urgent need for affordable rental housing. In 2015, nearly half (48 percent) of all renters were cost burdened, with a much higher share for lower-income households (77 percent), and a higher share for blacks (47 percent), Hispanics (44 percent) and Asians/others (37 percent) when compared with 28 percent for whites.[24] One-to-four unit homes, which supply more than half of all occupied rental units, are a critical segment of the rental housing market.[25] Single-family rental units provide affordable housing for lower-income households, supplying three-quarters of unsubsidized rental units with rents below $400 a month and nearly 60 percent of unsubsidized units with rents between $400-$599.[26]

Owner-occupied two-to-four unit housing is an important segment of the housing market and one where there is a need for increased access to credit for qualified buyers. When underwritten well and combined with quality housing counseling, owner-occupied two-to-four unit properties are an important opportunity for affordable homeownership for lower-income borrowers, with rental income supporting mortgage payments and building maintenance. Accordingly, we support a bonus credit valued at 1.25 for two-to-four unit buildings that are owner-occupied, and where the owner has completed housing counseling with a HUD-approved housing counseling agency, which includes landlord counseling for owner-occupants for two-to-four unit buildings.

At a time when even prime borrowers have difficulty obtaining mortgage credit, instituting a policy that incentivizes – but does not require – additional purchase activity should be considered. Bonus points and adjustment factors have demonstrated a history of success and expanding access quickly. These incentives can be short term, but have tremendous impact on the availability of credit in underserved markets, including those not eligible for Duty to Serve credit.

E. Conclusion

In conclusion, we want to emphasize a concern we have raised throughout this comment about the impact of the continuing conservatorship on goal-setting and compliance, and the overall measured policy response of the Enterprises to the broad affordable housing challenges facing low- and moderate-income and minority families and underserved communities. FHFA and the Enterprises have certainly taken a number of steps affecting lenders, servicers and borrowers since the rulemaking on the 2015-2017 housing goals that are designed to, and are facilitating better access to credit. Those steps have been modest, however, and have failed to match the

[24] Ibid.

[25] Harvard Joint Center on Housing Studies, *America Rental Housing* (2013).

[26] Harvard Joint Center on Housing Studies, *America Rental Housing: Rental Housing Supply* (2013). See also: Laurie Goodman and Jun Zhu, *Rentals in two- to four-unit buildings are more affordable, so why are they so hard to finance?*, Urban Institute (May 17,2016).

scale of affordable housing challenges facing the nation. Our recommendations for higher goal targets and for a more robust policy response are designed to encourage greater market leadership at the Enterprises that will improve the composition of credit risk – who gets mortgage credit and on what terms –across the broader mortgage market. Through theor competition with each other, their substantial market share and ability to shape underwriting standards and pricing, they continue to have much greater power than they are currently exercising to improve access and affordability across the conventional mortgage market.

Thank you for providing NCRC and the 600 community-based, member organizations we represent, the opportunity to share our thoughts on how the proposed 2018-2020 Enterprise Housing Goals can be improved and better ensure that Fannie Mae and Freddie Mac are fulfilling their statutory obligation to foster a healthy national mortgage market for low-and moderate-income and minority families and communities. If you have questions regarding our comment, please feel free to contact Gerron Levi, Director of Policy and Government Affairs at (202) 464-2708.

Sincerely,

John Taylor
President and CEO