October 21, 2024

RE: 2025–2027 Enterprise Housing Goals

To Whom it May Concern:

The National Community Reinvestment Coalition (NCRC) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) proposed affordable housing goals for 2025 through 2027. NCRC applauds some of the goals as pushing the Government Sponsored Enterprises (GSEs) to consistently serve traditionally neglected populations, particularly the minority tract goal. However, other goals are set too low and could be feasibly increased. In addition, NCRC opposes the proposal that would likely decrease the frequency of GSE housing plans that address deficiencies in goal attainment.

NCRC is a network of more than 700 community-based organizations dedicated to creating a nation that not only promises but delivers opportunities for all Americans to build wealth and attain a high quality of life. We work with community leaders and policymakers to advance solutions and build the will to solve America's persistent racial and socio-economic wealth, income, and opportunity divides, and to make a Just Economy a national priority and a local reality.

Secondary market institutions such as the GSEs are integral to our mission. Unless they support and help finance primary market lending to modest income populations and people of color, lending institutions will face significant constraints in their abilities to reach traditionally underserved populations.

Major points in our letter include:

- *Need for aggressive goal setting* – the GSEs have an outsize presence in the marketplace. If they are not pushed to serve neglected populations, lending institutions will have more difficulties in fulfilling their obligations under the Community Reinvestment Act (CRA) and fair lending laws.
- *Goal setting should be established for a two-year time period, instead of the current three-year time period.* This provides more opportunities for public review and input into GSE performance. It also makes economic forecasting easier, allowing the FHFA to set goals with more precision.
- *The FHFA should not backtrack on housing plans as proposed.* Housing plans should not be viewed as punitive enforcement measures but rather as proactive and constructive opportunities for improving GSE performance and establishing partnerships with lending institutions and non-profit community organizations.

- *The FHFA needs to publish local data on GSE performance* so stakeholders can better identify underserved areas and overlooked areas that are goals rich in terms of plentiful opportunities for GSE purchasing activity.
- *The FHFA should provide more opportunities for public input on affordable housing goals attainment.* The agency should consider public comments as part of the housing plan requirements or annual opportunities to comment on goal attainment.

Housing Goals are Inconsistent in Terms of Asking the GSEs to Meet or Lead the Market

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 requires the FHFA to assess the extent to which the GSEs are able to "lead the industry in making mortgage credit available."[1] The GSEs are currently and likely to remain dominant institutions in the secondary market. According to the FHFA, in the last few years, their market share has hovered around 60 percent.[2] Since they are dominant market players, they have the ability as well as the legal mandate to lead the market. Their housing goals should reflect their market position and should be strenuous.

In order to increase the rigor of the goals, the FHFA should consider two-year goals instead of three-year goals. With two-year goals, the FHFA could be more aggressive in setting benchmarks and choosing benchmark levels that were closer to the upper range of the forecasted percentage of loans for each goal. Forecasts are more accurate over a shorter time frame, making more aggressive goal setting more feasible. In addition, two-year goal setting entails more frequent rule making, which provides more opportunities for public input and accountability. This heightened level of public scrutiny is especially important for traditionally underserved communities to make their case for increasing financing for affordable housing.

In this context, NCRC finds the goal setting to be inconsistent. In some cases, the GSEs are expected to lead or at least meet the market while in other cases, reduced expectations are reflected in relatively low goal setting. The FHFA explains that economic challenges including higher interest rates, restrictions in housing supply, and decreases in housing affordability compelled it in some cases to reduce the percentages for some of the goals.[3] However, due to recent interest rate reductions by the Federal Reserve Board and resilience in the labor markets, it is likely that economic conditions will improve over the next three years, reducing the need for caution for some of the goals.

On the single-family side, the FHFA decreased the low-income goal from 28% in the previous goal setting to 25% for 2025 through 2027. Due to adverse economic conditions, the FHFA suggests that the previous goal was too much of a stretch and "did not benefit low-income borrowers, risked constraining liquidity in the overall market, and potentially impacted the

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[1] Federal Housing Finance Agency (FHFA), *Enterprise Housing Goals*, Federal Register, Vol. 89, No. 168, Thursday, August 29, 2024, p. 70131
[2] FHFA, *Enterprise Housing Goals*, p. 70134.
[3] FHFA, *Enterprise Housing Goals*, pp.70132 and 70133.

Enterprises' financial condition."[4] However, as shown in the table below, Freddie Mac led the market in 2023 by two percentage points while Fannie was just two tenths of a percentage point below the market. This performance suggests that a goal of around 26 percent to 27 percent can respond to the FHFA's concerns about unhealthy GSE behavior in meeting a stretch goal while still maintaining GSE leadership position. In contrast, the FHFA has set the very low-income home purchase goal to be more strenuous since it is closer to market levels and its forecasts.

NCRC applauds the FHFA's goal setting for minority tracts. Minority tracts are those with a high percentage of people of color. GSE purchases will count in these tracts if they are made to households with less than 100 percent Area Median Income (AMI). In 2023, both GSEs lead the market in terms of a higher percent of mortgages for minority tracts than primary institutions loaned. The FHFA's goal setting is likely to retain this GSE leadership position since the benchmark goal is within a percentage point of the FHFA's forecast for 2025-2027. National priorities in terms of narrowing the racial wealth and homeownership gaps compel continued strenuous goal setting for the minority tract goal.

In contrast, NCRC finds that the low-income tract home purchase goal is set too low. The FHFA's forecast for this goal is that the market will offer about 10 percent of their home purchase loans in these tracts during 2025 through 2027, but the FHFA is setting the goal at just 4 percent for the GSEs. Meanwhile both the GSEs and the primary market have been at a considerably higher percent hitting around 9 percent in 2023. The FHFA reasons that the agency does not want to facilitate gentrification in low-income tracts by setting a benchmark that is too aggressive.[5] The way to avoid this outcome, however, is to either limit borrower income levels for all or a subset of low-income tracts. In particular, the FHFA could specify that only purchases of loans to low-income borrowers will count in tracts that are experiencing rapid home price increases above average or median levels nationally or at the metropolitan or county level.

The Consumer Federation of America (CFA) suggests that additional census tract criteria could identify low-income tracts that are experiencing disinvestment and economic decline. NCRC has advocated for this approach to the federal bank agencies during their changes to the CRA regulation as well as to the FHFA.[6] We have suggested identifying tracts with the lowest levels of lending per household as tracts experiencing disinvestment and least likely to experience gentrification. These tracts would include a diversity of rural areas as well as urban neighborhoods and communities of color. If the low-income tract goal successfully targeted communities most in need of primary market activity, it would avoid the gentrification impacts of concern to FHFA. NCRC urges reconsideration of the low-income tract goal setting in order to increase the chances of revitalization and improving the housing market in low-income neighborhoods.

[4] FHFA, *Enterprise Housing Goals*, p. 70136.
[5] FHFA, *Enterprise Housing Goals*, p. 70138.
[6] Bruce Mitchell, PhD. and Josh Silver, "Adding Underserved Census Tracts As Criterion On CRA Exams," (NCRC, Washington DC, January 2020), https://ncrc.org/adding-underserved-census-tracts-as-criterion-on-cra-exams/

NCRC also asks the FHFA to rethink the low-income refinance goal. The FHFA forecasts a market level of 42.1 percent but sets the goal for 2025 through 2027 at 26 percent. This is a large difference of 16 percentage points as shown by the table below. Meanwhile, the GSEs are closer to the market in 2023 with differences within 2 to 3 percentage points.[7] NCRC understands that the refinance market is more unpredictable and volatile than the home purchase market due to increased sensitivity to interest rates. However, we believe that the percentage point difference between the FHFA's forecast and the benchmark rate could be cut safely by half to 8 percentage points, given the smaller difference between the GSE and the market.

GSE Compared to Primary Market and FHFA Forecast and Benchmark								
In percentages								
Goal	Fannie 23	Freddie 23	Market 23	Forecast 25	Benchmark	Fan - Mkt	Fred - Mkt	Forecast-Bench
Low Income Home Purchase	26.1	28.5	26.3	27.2	25	-0.2	2.2	2.2
Very Low Income Home Purchase	6	6.8	6.5	6.6	6	-0.5	0.3	0.6
Minority Tracts Home Purchase	12.6	13.2	12.2	12.4	12	0.4	1	0.4
Low Income Tracts Home Purchase	9.3	9.4	9.8	10	4	-0.5	-0.4	6
Low Income Refinance	38.4	43.2	40.3	42.1	26	-1.9	2.9	16.1
						Fan-Ben	Fred-Ben	
Multifamily Low Income	76.3	67.1			61	15.3	6.1	
Multi family Very Low Income	18.7	20.6			14	4.7	6.6	
Small Multifamily Low Income	3.2	4.1			2	1.2	2.1	
Notes:								
Fannie 23 - Fannie Mae performance in 2023								
Freddie 23 - Freddie Mac performance in 2023								
Market 23 - primary market performance in 2023								
Forecast 25 - FHFA forecast of market level in 2025								
Benchmark - FHFA benchmark goal for 2025-2027								
Fan-Mkt - difference between Fannie Mae and primary market								
Fred-Mkt - difference between Freddie Mac and primary market								
Forecast - Bench - difference between FHFA forecast and benchmark level								

Multifamily goal setting is more challenging than single family goal setting due to the absence of reliable market data. Instead of forecasting, the FHFA bases its goal setting on historical performance. However, it appears that the FHFA is too conservative with its goal setting. For example, the multifamily low-income goal is set at 15 and 6 percentage points lower than Fannie Mae's and Freddie Mac's recent performances, respectively. It would seem that the FHFA could reduce the percentage point difference in half to 7 percentage points. While this would be more challenging for Freddie Mac, it would nevertheless appear feasible since Fannie Mae is currently at a much higher level and Freddie would not need to stretch too far. Such a large difference between goal setting and historical performance will encourage back sliding, further hurting the housing supply for low-income rental units during a time period when rents have been increasing significantly.

[7] FHFA, *Enterprise Housing Goals*, p. 70139.

The multifamily very low-income goal is more ambitious. However, it too could be higher, on the order of magnitude of two to three percentage points based on the historical performance of the GSEs. Lastly, NCRC suggests that the small multifamily low-income goal be adjusted upwards of at least one percentage point, which seems feasible given GSE recent performance. Multifamily buildings with smaller number of units (between 5 and 50 units) are particularly important in smaller metropolitan areas and rural counties that do not have as many large-scale multifamily properties.

The Use of Housing Plans Should be Enhanced by Instituting Public Comment Periods

Currently, when a GSE fails to meet a goal, it must submit a housing plan to the FHFA in which the GSE indicates how it will improve performance so that it can meet the goal in future years. The FHFA is proposing to relax this requirement and not to require housing plan submissions when a benchmark goal is higher than a market level for a given year. Furthermore, the FHFA proposes to not require housing plans even when GSE performance are below the market level by specified percentage points across the various goals.[8]

NCRC opposes this proposal because it would move policy in the opposite direction than is desired. We believe that the GSEs must perform above the market in most cases or at least at the market for the most challenging goals. The "enforcement factor" proposal relaxing performance requirements would likely result in more instances in which the GSEs are lagging the market. In addition, as CFA notes, the FHFA's enforcement factor proposal would effectively reduce if not eliminate the benchmark aspect of the goal setting in favor of a market-only approach in which the GSEs are allowed to trail the market before they are required to submit housing plans. This is not an approach for encouraging GSE market leadership.

The proposed enforcement factor approach would be automatic instead of discretionary. In other words, no housing plans are required if certain thresholds are met. In contrast, the current regulatory language indicates that the agency can refrain from requiring a housing plan if it believes that goal attainment was not feasible due to adverse economic conditions.[9] Thus, under the discretionary approach now, the FHFA would probably refrain from requiring a housing plan in some circumstances but would order it under other circumstances. Under the proposal, the likelihood of refraining from a housing plan increases as long as thresholds are met. The FHFA has not demonstrated why the bias against housing plans is needed since the current discretionary authority can also accommodate adverse economic conditions. We believe that the current approach strikes an appropriate balance, and we oppose likely reductions in the incidence of housing plans.

The FHFA is concerned about adverse economic conditions, but we believe that the economy will rebound in future years, facilitating goal attainment. Also, if economic conditions remain

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[8] FHFA, *Enterprise Housing Goals*, p. 70130.
[9] 12 CFR 1282.21, https://www.ecfr.gov/current/title-12/chapter-XII/subchapter-E/part-1282/subpart-B/section-1282.21

challenging, we do not regard housing plans as punitive enforcement measures but instead as opportunities for stakeholders to further collaborate with the GSEs in order to improve their performance.

The FHFA should hold public comment periods on draft housing plans as well as when it needs to renew housing goals after the expiration of current goals. This would provide another opportunity for lending institutions, community organizations, and local public agencies to comment and outline steps and programs that would enable the GSEs to improve their performance in a safe and sound manner. Our understanding is that the FHFA regards housing plans as enforcement actions which are not usually subject to public comment periods. However, a NCRC review of the statutory language of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, the Housing and Economic Recovery Act of 2008, and the current regulatory language regarding the affordable housing goals does not indicate a prohibition on public comment periods in connection with draft housing plans.

If the FHFA opts against public comment periods for housing plans, it should consider increasing opportunities for public comments elsewhere. Creating goals for two years instead of three years would increase the frequency of public comments. In addition, the FHFA could institute annual public comment opportunities in which it would update the public about GSE goal attainment and request comments on GSE progress in meeting goals.

Public comments on housing plans or more frequent public comment opportunities in other settings also hold the potential to add a local component to national level Affordable Housing Goal setting. Stakeholders in metropolitan areas and rural counties could point out their unique needs and local solutions that the GSEs might be overlooking but could help them increase their local purchases and thus help meet neglected needs. For example, in lower cost parts of the country, the market currently is not financing an adequate level of smaller dollar mortgages needed by modest income households. Stakeholders could suggest programs and partnerships that would help the GSEs jump start this market with their purchasing activity. This would enhance the GSEs' obligation to lead the market in meeting needs.

FHFA Should Publish Local GSE Performance Data to Facilitate Public Input

NCRC has advocated for several years that the FHFA should publish local data on a metropolitan and county level regarding GSE goal performance and market levels of financing. The data should be displayed on easy-to-understand tables and on compelling color-coded maps that would use different colors to display different levels of GSE performance compared to the market. Focusing on just providing raw data to the public is insufficient because large scale and complicated data analysis is beyond the ability of most local stakeholders. However, the FHFA has the resources in terms of economists and GIS professionals to produce visually compelling GSE and market performance data and maps on a local level.

FHFA data and mapping of this nature would reveal localities where the GSEs were performing well and markets in which they could improve. There would be a variety of underserved areas identified including those that are goals rich due to relatively high levels of housing affordability but perhaps are overlooked for one reason or another by the primary and secondary market. The FHFA database could include income to housing price ratios and other indicia of affordability that could help identify these underserved but goals rich areas. There will be other localities that are underserved but have more economic challenges in which stakeholders would need to work harder to overcome barriers. Currently, there is no national inventory and spatial database that would help stakeholders most appropriately tailor strategies to localities.

In our previous comment letter regarding the 2022 to 2024 goals, NCRC suggested that the FHFA mandate certain levels of GSE improvements in localities depending on their performance on national goals. Since FHFA did not adopt this suggestion, we are asking that the agency consider robust and visual data presentations on a local level. In this manner, stakeholders can more readily and effectively devise voluntary programs to help close gaps between needs and financing. At the same time, GSE performance on a national level will also likely improve if data disclosure and housing plan requirements motivate vigorous efforts on a local level.

One such initiative can be increasing the use of special purpose credit programs (SPCPs) that focus on economically disadvantaged populations. The FHFA's equitable housing plans and Duty to Serve requirements both encourage GSE use of SPCPs but there is currently a lack of data that would most effectively identify priority areas for these programs.

NCRC strongly suggests the creation of powerful and easy-to-use tables and maps on GSE local performance which would aid in the Affordable Housing Goals, Equitable Housing Finance Plans, and Duty-to-Serve Plans. Without such data, stakeholders lack sufficient information to know for sure whether these FHFA requirements are directing the GSEs to areas of the country with pressing needs or to goal rich areas that are relatively well served already. A lack of data and planning tools undermine the goal setting in the FHFA programs. It is not enough to have national level programs without robust information whether local needs are being met. Without local planning and data, the spirit and intent of the FHFA requirements to reach all populations are undermined. It also makes it more difficult for primary market institutions to meet their obligations under the Community Reinvestment Act (CRA) and the fair lending laws.

NCRC appreciates that the FHFA has subnational data on its website already, suggesting that incorporating metropolitan and county level data would be readily achievable. A section of the FHFA website regarding Enterprise Housing Goals allows a user to download excel files that include housing goal performance data by state.[10] In addition, Duty-to-Serve data is available on a county level and displayed through maps.[11] Building on this current capacity, it should not be too difficult for the FHFA to produce metropolitan and county level GSE performance data

[10] Federal Housing Finance Agency, *Enterprise Housing Goals*, https://www.fhfa.gov/data/enterprise-housing-goals
[11] Federal Housing Finance Agency, *Duty to Serve 2023 Single-Family Dashboard*, https://www.fhfa.gov/data/dashboard/dts/single-family/2023

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displayed on maps and available in excel files for download. This would be of enormous public benefit and would facilitate public comments.

Conclusion

In conclusion, we urge the FHFA to be more uniform in setting achievable but higher targets across the goals. We applaud the minority tract goal but believe that the low-income home purchase goal, the low-income tract goal, the low-income refinance goal, and some of the multifamily goals can be set higher. We believe that goals should be set for two years in duration instead of the current three years. This would improve forecasting abilities, allow the FHFA to set more aggressive goals, and provide more opportunities for public comment. The FHFA should establish public comments for draft housing plans or more frequent opportunities for public comment in other ways.

Publicly available data on local performance would enrich the public comment period that the FHFA currently holds when it renews goals, and any public comment period established in connection with housing plans. It would enable stakeholders to more effectively indicate how the GSEs can improve their local performance which would contribute to their better able to meet their national goals.

Thank you for the opportunity to comment. If you have any questions, please feel free to contact me on jvantol@ncrc.org or Josh Silver, Senior Fellow, on jsilver97@gmail.com.

Sincerely,

Jesee Van Tol
President and CEO