

October 25, 2021

Ms. Sandra Thompson
Acting Director
Federal Housing Finance Agency
Constitution Center
400 7th Street SW
Washington, DC 20219

Dear Acting Director Thompson:

On behalf of U.S. Mortgage Insurers (USMI) and our member companies,¹ we appreciate the opportunity to provide feedback on the Federal Housing Finance Agency’s (FHFA) Request for Input (RFI) on “Enterprise Equitable Housing Finance Plans”² which articulates a framework by which Fannie Mae and Freddie Mac (GSEs or Enterprises) will be required to prepare, implement, and report on three-year Equitable Housing Finance Plans (the Plans) to advance equity in housing finance. USMI represents America’s leading providers of private mortgage insurance (MI) and our members are dedicated to a strong housing finance system backed by private capital that enables access to affordable and sustainable mortgage finance. The private MI industry has nearly 65 years of expertise in underwriting and actively managing mortgage credit risk to balance access to affordable mortgage credit with providing critical risk protection to the GSEs and American taxpayers from mortgage credit-related losses. Since 1957, the private MI industry has helped more than 35 million households achieve sustainable homeownership, including more than two million in 2020 alone, and since 2016 has been the number one way for low down payment homebuyers to purchase or refinance homes.³

Private MI represents an affordable and time-tested way for families across the country to attain homeownership with low down payment mortgages and is critical in helping minority, first-time, and younger homebuyers purchase homes with as little as three percent down. Loan-level credit risk protection and management allows the MI industry to serve as a second set of eyes during the underwriting process and ensures that mortgages in the high loan-to-value (LTV) segment of the market are prudently underwritten, affordable, and sustainable. Homeownership is the primary vehicle for American families to create financial security and intergenerational wealth, and the persisting racial homeownership and wealth gaps are alarming. At the end of June 2021, the homeownership rates for White, Black, and Hispanic Americans stood at 74.2%, 44.6%, and 47.5%, respectively.⁴ Minority households across the country continue to experience barriers to homeownership due to a variety of reasons, including: tight lending standards (the average credit

¹ USMI represents the nation’s leading private mortgage insurance companies and USMI membership comprises: Enact Mortgage Insurance; Essent Guaranty, Inc.; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty, Inc.

² Federal Housing Finance Agency, “FHFA Announced Equitable Housing Finance plans for Fannie Mae and Freddie Mac” (September 7, 2021). Available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Equitable-Housing-Finance-Plans-for-Fannie-Mae-and-Freddie-Mac.aspx>.

³ GSE aggregate data, USMI member company data, and *Inside Mortgage Finance*.

⁴ U.S. Census Bureau, Residential Vacancies and Homeownership, Second Quarter 2021. Available at <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>.

score for GSE new business is nearly 760);⁵ historically low levels of supply (only 2.6 months for existing homes in August 2021),⁶ especially in the affordable housing segment of the market; a GSE pricing framework that disproportionately increases costs for minority and first-time borrowers; and socioeconomic challenges that have over time led to lower incomes, lower credit scores, higher debt-to-income ratios, and lower home equity for minority households.⁷ These factors collectively reduce minority households’ access to conventional mortgage finance and opportunities to build long-term and intergenerational wealth. Further, the aforementioned challenges have caused minority households to be harder hit during the COVID-19 pandemic and more susceptible to default and foreclosure.⁸

USMI commends the FHFA for soliciting feedback on the Plans to identify barriers to sustainable housing opportunities, set goals to address those barriers, and implement policies to address the barriers. The private MI industry welcomes the opportunity to work with FHFA, the GSEs, and other housing finance stakeholders to support the Biden Administration’s goal of “a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty, and inequality.”⁹ USMI fully supports increased public-private collaboration and advancing a coordinated housing policy that ensures borrowers have access to mortgage products in both the conventional and government-backed markets.

Responses to specific questions posed by the RFI are included in Appendix A and USMI’s broader observations and recommendations regarding equity in homeownership and access to affordable mortgage credit are immediately below.

As an industry that is dedicated to the U.S. housing finance system and that exclusively serves homebuyers with limited access to funds for large down payments, USMI and its member companies are keenly interested in advancing policies that promote access to the conventional mortgage market and support sustainable homeownership. USMI supports the FHFA’s work to address access and affordability issues that exist in the mortgage market while maintaining safe and sound operations at the GSEs. Regulators and stakeholders should work together to implement policies that promote access to sustainable housing finance credit to ensure consumers’ ability to purchase homes and stay in their homes.

While the responsibility to make permanent and structural changes to the housing finance system ultimately falls to Congress, we recognize that FHFA, in its role as regulator and conservator,

⁵ 2Q2021 Fannie Mae Financial Supplement and 2Q2021 Freddie Mac Financial Results Supplement.

⁶ National Association of Homebuilders, “Existing and New Home Sales” (updated September 27, 2021). Available at <https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/sales/nationwide-sales-and-inventory.pdf>.

⁷ Urban Institute, “Closing the Gaps: Building Black Wealth through Homeownership” (November 23, 2020).

⁸ Brookings Institution, “Housing inequality gets worse as the COVID-19 pandemic is prolonged” (December 18, 2020); Urban Institute, “New Data Suggest COVID-19 is Widening Housing Disparities by Race and Income” (May 29, 2020).

⁹ Executive Order 13985, “Advancing Racial Equity and Support for Underserved Communities Through the Federal Government.” 86 Fed. Reg. 7009 (January 25, 2021).

has the authority to require that the GSEs operate in a manner that furthers their congressionally-mandated public missions, which includes an affirmative obligation to “provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income (LMI) families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investment and improving the distribution of investment capital available for residential mortgage financing.”¹⁰

Over the past several years, USMI has routinely made a number of recommendations to sustainably expand access to homeownership and address barriers that disproportionately impact minority homebuyers. Specifically, USMI believes that the following actions represent prudent policies to promote sustainable homeownership and level the playing field for homebuyers of color:

1) Review and Reform Loan-Level Price Adjustments (LLPAs)

LLPAs are loan-specific fees that were introduced in 2008 to help partially offset record losses to the GSEs’ books of business due to the 2008 housing and financial crisis. These fees are directly tied to a borrower’s credit profile and are primarily driven by two elements: (1) the LTV ratio; and (2) the borrower’s credit score. As a result of the LLPA calculation, these fees are disproportionately paid by LMI and minority borrowers, as data demonstrates these borrowers tend to have higher LTV ratios and lower credit scores.¹¹ And, while LLPAs are technically paid by lenders, they are ultimately passed along to borrowers in the form of higher interest rates which, based on the borrower’s characteristics and the mortgage product, could add as much as 1% to a borrower’s interest rate. For example, a borrower with a 5% down payment, 700 FICO credit score, and a 30-year fixed-rate purchase mortgage would experience a 0.25% increase in their interest rate due to LLPAs, an increase that translates into more than \$16,000 over the life of the loan.¹²

LLPAs and other GSE fees should be based on a transparent actuarial analysis of the mortgage credit risk being guaranteed by the GSEs and, for low down payment mortgages, should reflect the risk-reducing benefits of private MI.¹³ Not doing so essentially charges borrowers twice for the same risk protection. The current LLPA framework does not fully account for the significant improvements throughout the housing finance system, including the enhanced mortgage underwriting requirements

¹⁰ Fannie Mae Charter, 12 U.S.C. 1716(3); Freddie Mac Charter, 12 U.S.C. 1451 note.

¹¹ Urban Institute, “Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership” (August 28, 2020). Page 11, “...with homeowners of color having lower credit scores and higher LTV ratios and debt-to-income ratios than white homeowners.”

¹² Analysis based on the following borrower and mortgage characteristics: \$350,000 purchase price (approximately the median existing home sale price as of September 2021 according to the National Association of REALTORS); 95% LTV; 700 FICO credit score; 1 borrower; 30-year fixed-rate purchase mortgage; owner-occupied single-family property; 3.00% base interest rate; and 1.00% LLPA. Upon factoring in the LLPAs, the borrower’s interest rate would increase from 3.00% to 3.25%.

¹³ Urban Institute, “Mortgage Insurance Data at a Glance – 2021” (July 1, 2021). Page 35, “For the 1999-2022 origination period, the loss severity of GSE loans without PMI was 41.2 percent, higher than the 28.7 percent severity for loans with PMI.”

established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and the Consumer Financial Protection Bureau’s (CFPB) Qualified Mortgage (QM) Rule.¹⁴ Further, the current framework does not fully recognize the enhanced strength of GSE counterparties, including private MIs due to robust capital and operational standards under the GSE-created Private Mortgage Insurer Eligibility Requirements (PMIERs),¹⁵ as well as updated Master Policies.

While we understand the original rationale for LLPAs, USMI urges the FHFA to work with our industry and other stakeholders to review and reform LLPAs in a manner that appropriately balances the credit risk being assumed by the GSEs, accounts for the numerous improvements in the housing finance system, and promotes access to affordable conventional mortgages. Given all the significant improvements in mortgage lending and risk management mentioned above, USMI supports a holistic review of GSE pricing, including LLPAs, and the current level of cross-subsidization to support LMI homebuyers.

2) Review and Revise the Enterprise Regulatory Capital Framework (ERCF)

As stated in our August 31, 2020 comment letter¹⁶ on the re-proposed ERCF,¹⁷ USMI supports the FHFA’s efforts to establish capital standards for the GSEs that appropriately reflect their activities and risk exposures to ensure that capital requirements do not arbitrarily price prospective homebuyers out of the conventional mortgage market. As entities with congressionally-mandated public missions, the GSEs’ capital requirements should promote an appropriate level of cross-subsidization and support for LMI borrowers. USMI has consistently encouraged FHFA to reconsider elements of the finalized ERCF¹⁸ that are not analytically justified and that unnecessarily increase the required minimum capital levels. This includes the single-family risk floors, the lack of appropriate credit provided for loan-level first-loss protection from entities that actively manage mortgage credit risk, such as private MIs, the values and definitions associated with counterparty haircuts, and the lack of appropriate capital relief for credit risk transfer (CRT) transactions. These changes were – and continue to be – supported by a broad segment of commenters to the 2020 proposed capital rule and, because these capital levels and the lack of capital benefit for credit enhancement directly impacts borrowers’ costs and the ability of the GSEs’ to fulfill their statutory missions, making targeted adjustments to the ERCF should be chief among priorities for FHFA.

USMI welcomed the FHFA’s September 15, 2021 release of a notice of proposed rulemaking to amend the ERCF¹⁹ and address two critical elements of the ERCF: (1) the

¹⁴ Dodd-Frank created new statutory consumer protections and regulations promulgated by the CFPB such as the QM Rule have played a significant role in addressing pre-2008 underwriting shortcomings and the GSEs’ current books of business reflect pristine credit quality.

¹⁵ As of June 30, 2021 the private MI industry collectively held 169% of required capital.

¹⁶ USMI, “Comment Response to FHFA’s Re-Proposed Rule on a New Enterprise Regulatory Capital Framework” (August 31, 2020). Available at http://72nut3mk2z64bywh6c1thwjy.wpengine.netdna-cdn.com/wp-content/uploads/2020/09/USMI-Comment-Letter-toFHFA_08.31.2020_vF.pdf.

¹⁷ 85 Fed. Reg. 39274 (June 30, 2020).

¹⁸ 85 Fed. Reg. 82150 (December 17, 2020).

¹⁹ 86 Fed. Reg. 53230 (September 27, 2021).

prescribed leverage buffer amount (PLBA); and (2) the treatment of CRT transactions.²⁰ The proposed changes would result in a reduction in total required capital (based on analysis of the GSEs' books of business as of March 31, 2021), a change that would factor into the GSEs' pricing and costs to borrowers. Ultimately, we believe that the proposed changes, coupled with the additional recommendations above, will more appropriately balance prudent risk management, the level of capital for the GSEs and their statutory missions.

3) Modify the Preferred Stock Purchase Agreements (PSPAs)

On January 14, 2021 former FHFA Director Calabria and former Treasury Secretary Mnuchin issued amendments to the PSPAs²¹ and implemented, among other things, caps on so-called “high-risk” loans, limits on lenders’ access to the GSEs’ cash windows, and restrictions on certain loan products. The various caps contained within the January 2021 PSPA amendments were determined without consulting housing finance stakeholders and absent any study as to the impact on the housing market and borrowers’ access to the conventional mortgage market. In addition, putting such restrictions in a letter agreement with Treasury creates a level of inflexibility that may not only impede the GSEs’ ability to fulfill their affordable housing mission through all market cycles on a nationwide scope, but also dilute FHFA’s authority as regulator and conservator. The “high-risk” loan cap would be especially harmful for minority access to affordable mortgage finance in the conventional market and the Urban Institute concluded that “The changes will further diminish access to credit for families of color and undermine policymakers’ ability to better serve the mortgage market on several other fronts.”²²

USMI welcomed the FHFA’s September 14, 2021 announcement²³ that it was suspending portions of the January 2021 PSPA amendments, most notably the caps on the acquisition of “high-risk” loans. With nearly 65 years of experience and expertise in underwriting and actively managing credit risk, the private MI industry knows how to facilitate prudent high LTV lending and serves as a second set of eyes during the underwriting process. This role in the housing finance system promotes sustainable homeownership and ensures that borrowers’ credit profiles are holistically analyzed. Accordingly, as FHFA contemplates a broad amendment to the PSPAs, USMI encourages the FHFA to remove, not merely suspend, the provisions concerning the “high-risk” loan acquisition caps that disproportionately impact minority access to conventional mortgages.

²⁰ The proposed rulemaking includes the following changes to the ERF: replace the fixed PLBA of 1.5% of a GSE’s adjusted total assets with a dynamic PLBA of 50% of a GSE’s stability buffer; reduce the prudential floor on the risk weight assigned to retained CRT exposures from 10% to 5%; and remove the requirement that a GSE apply an overall effectiveness adjustment to retained CRT exposures.

²¹ Fannie Mae and Freddie Mac Senior PSPAs and subsequent amendment are available at <https://www.fhfa.gov/Conservatorship/Pages/Senior-Preferred-Stock-Purchase-Agreements.aspx>.

²² Urban Institute, “The Preferred Stock Purchase Agreements Will Hamper Access to Credit: A Further Modification Is In Order” (February 2021). Page 7, “...for GSE purchase mortgages made in 2019, more than twice the share of Black and Hispanic borrowers versus White borrowers (8.75 percent versus 4.07 percent) would be considered high risk, as determined by FICO scores and LTV ratios only. This would make it more difficult to expand the credit box to incorporate more Black and Hispanic borrowers.”

²³ Federal Housing Finance Agency, “FHFA and Treasury Suspending Certain Portions of the 2021 Preferred Stock Purchase Agreements” (September 14, 2021). Available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-and-Treasury-Suspending-Certain-Portions-of-the-2021-Preferred-Stock-Purchase-Agreements.aspx>.

4) Finalize the New Products and Activities Rule

Innovation can be beneficial for expanding access to homeownership, but it should be accomplished via a transparent and thorough process that assesses GSE expansions and ensures they do not disintermediate other market participants. During their more than 13 years in conservatorship, however, the GSEs have developed and implemented a variety of programs, products, and pilots with little to no transparency, often representing expansions into areas of the mortgage finance system long considered to be functions of the primary mortgage market. These pilots were introduced into the market without transparency for stakeholders and without comment periods to receive industry input on both the need for the pilots and recommendations to improve their operations. To promote a robust housing finance system and prudential expansion of homeownership opportunities, pilots and new products need to be carefully considered. USMI is encouraged by FHFA’s ongoing review and subsequent cancelation of some of these pilots,²⁴ and strongly supports a regulatory mechanism to exercise greater scrutiny of new GSE activities to ensure they support the GSEs’ explicit public policy objectives in compliance with their charters. Further, USMI was very pleased that the FHFA’s “2021-2024 Strategic Plan” stated that as regulator it intends to “ensure the activities of the regulated entities stay within the boundaries of their charters and appropriately respond to market events and downturns.”²⁵

New products, activities, and pilots should only be allowed when there is clear and compelling evidence that the GSEs are needed to fill a market void that the private market cannot meet. Accordingly, USMI supports the FHFA’s proposed rule regarding “Prior Approval for Enterprise Products”²⁶ and encourages FHFA to finalize this proposed rule.

5) Greater Data and Transparency

To address longstanding inequities in the housing finance system, it is critical that consistent transparency be hard-wired into the GSEs’ credit policies and that data around the GSEs’ performance in key areas, most notably access to credit for minority households, be publicly available. One example of this would be to expand analytical capabilities by mapping Home Mortgage Disclosure Act (HMDA) and other racial datapoints to the loan-level National Mortgage Database (NMDB). Further, as we note later in our comment letter, we firmly believe that additional transparency and data sharing initiatives enable market participants to enhance access, affordability, and sustainability in the mortgage markets. It is important that policies promote collaboration

²⁴ Federal Housing Finance Agency, “Determination on Enterprise Activity in the Single-Family Rental Market” (August 21, 2018); Federal Housing Finance Agency, “End of Mortgage Servicing Rights Financing Pilot Program” (September 18, 2019); Federal Housing Finance Agency, “Credit Risk Transfer Progress Report: 4Q 2019,” commentary on lender risk sharing, page 14 (April 3, 2020); Commentary in Fannie Mae’s 2Q2021 10-Q filing (page 39) that “In May 2021, FHFA instructed us to discontinue our EPMI pilot program and by August 29, 2021 cease acquiring loaned insured with EPMI” (August 3, 2021).

²⁵ Federal Housing Finance Agency, “Strategic Plan: Fiscal Years 2021-2024” (October 27, 2020). See Objective 2.1. Available at https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_StrategicPlan_2021-2024_Final.pdf.

²⁶ 85 Fed. Reg. 71276 (November 9, 2020).

between FHFA, GSEs, and industry participants to monitor origination trends, analyze the mortgage market, and develop strategies/products to expand access to affordable mortgage credit and promote sustainable homeownership. One action that can further this goal is to expand the number and subject matter of reports that are regularly released to the public by the FHFA’s Division of Research and Statistics (DRS).

In its role as regulator and conservator of the GSEs, the FHFA can play a significant role in promoting equity through its ability to issue and enforce directives. Market participants and homebuyers would greatly benefit from a better understanding of current directives that impact equitable housing initiatives, as well as policies that govern GSE pricing and the level of cross-subsidization produced by their loan-level pricing framework.

USMI appreciates the opportunity to share its views on the FHFA’s RFI on “Enterprise Equitable Housing Finance Plans” and we welcome any questions you may have concerning our observations and recommendations. Questions or requests for additional information may be directed to Lindsey Johnson, President of USMI, at ljohnson@usmi.org or 202-280-1820.

Sincerely,



Lindsey D. Johnson
President

APPENDIX A

1. How should measurable goals be selected and set by the Enterprises? For example, is a pursuing a small set of focused goals or a wide portfolio of goals better?

USMI supports the requirement that the GSEs' Plans include actions related to: (1) reducing the racial or ethnic homeownership gap; and (2) reducing underinvestment or undervaluation in formerly redlined areas that remain racially or ethnically concentrated areas of poverty or otherwise underserved or undervalued. More than 50 years after the enactment of the Fair Housing Act,²⁷ it is deeply concerning that there continues to be a dramatic gap between minority homeownership and White homeownership.²⁸

It is especially concerning that the Black-White homeownership gap is wider now (approximately 30%) than in 1960 (approximately 27%) when explicit discrimination was permitted and widespread in the housing finance system. One of the most important tools to address racial equity in the housing finance system is access to data and USMI applauds FHFA for its increased publication of data around mortgage originations, fair lending at the GSEs, and housing goals. For example, recent GSE and HMDA data revealed significant differences in the mortgage application approval rates and loan acquisition shares based on the race of the homebuyer. It is alarming that mortgages to Black borrowers constituted only approximately 4% of the GSEs' 2020 acquisitions and it is clear that the housing finance system needs to do more to ensure that borrowers of color have access to mortgage financing in the conventional market.²⁹ USMI is supportive of policies, programs, and products that expand access to affordable mortgages and sustainable homeownership while ensuring the safe and sound operation of the GSEs.

As the GSEs work to set measurable goals, it is important that they consider actions and policies that address both access to credit AND supply constraints. USMI specifically supports the FHFA's inclusion of "increasing the supply of affordable housing" as a potential objective and encourages the GSEs to include this element in their Plans. To meet the housing demands of today's prospective homebuyers and ensure access to affordable housing, USMI strongly believes that we must address the critical lack of housing supply. Limited supply – historically low with only 2.6 months of supply for existing homes as of August 2021³⁰ – coupled with strong demand has resulted in astronomical home price appreciation (HPA) – 19.2% from July 2020 to July 2021³¹ – that is putting homeownership further out of reach for many prospective homebuyers, most notably for minority and first-time buyers. While housing shortages have

²⁷ 42 U.S.C. 3601 *et seq.*

²⁸ At the end of June 2021, the homeownership rates for White, Black, and Hispanic Americans stood at 74.2%, 44.6%, and 47.5, respectively. U.S. Census Bureau, Residential Vacancies and Homeownership, Second Quarter 2021. Available at <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>

²⁹ FHFA Fair Lending Data. Available at <https://www.fhfa.gov/DataTools/Downloads/Pages/Fair-Lending-Data.aspx>.

³⁰ Urban Institute, "Housing Finance at a Glance: A Monthly Chartbook, September 2021" (September 28, 2021).

³¹ Federal Housing Finance Agency, "House Price Index Report – September 2021" (September 28, 2021). Available at https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA-HPI-Monthly_9282021.pdf.

historically been associated with urban areas, they are now prevalent throughout the country in rural, suburban, and urban areas.

In order to best serve prospective homebuyers and address inequities in the housing finance system, the GSEs should focus on a select group of measurable goals. Geography- (including historically redlined areas, areas of concentrated poverty, and rural areas) and income-based initiatives would help focus the GSEs' efforts and target resources. Due to the fact that racial equity in the housing finance system is a complex issue and the specific challenges/issues vary by geography and other factors, broad initiatives/offers could have reduced effectiveness due to challenges in terms of coordination, implementation, and measurement of success.

2. What data, information, or analyses would be helpful for the Enterprises to consider or use to support their plans?

USMI strongly supports the requirement that the Plans and annual progress reports on implementation be publicly available and our industry welcomes the expanded access to mortgage origination and GSE data. We firmly believe that additional transparency and data sharing initiatives will better facilitate collaboration between FHFA, GSEs, and industry participants to monitor origination trends, analyze the mortgage market, and develop strategies/products to expand access to affordable mortgage credit and promote sustainable homeownership. Ultimately, greater transparency enables market participants to enhance access, affordability, and sustainability in the mortgage markets.

We have been pleased to see increased loan-level data be made publicly available through the NMDB,³² as well as the recent release of fair lending and housing goals data.³³ It is our hope that FHFA will continue to build on these efforts, as well as other areas of transparency related to the GSEs' automated underwriting systems (AUSs), including pairing HMDA and other racial datapoints with the loan-level NMDB data. Specifically, the GSEs should take the following actions: (1) share mortgage forbearance data with the MI industry and other market participants in order to strengthen the industry's ability to support borrowers in distress; (2) publicly release data around the Black-White gap for refinancing;³⁴ (3) grant market participants access to the Uniform Appraisal Dataset (UAD); and (4) continue to focus on sharing data regarding alternatives to traditional credit underwriting, including in the areas of bank data, rental payment, and telecommunications payments. It would be very beneficial to the housing

³² Federal Housing Finance Agency, "FHFA Announced New and Expanded Statistical Products From the National Mortgage Database" (June 30, 2021). Available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-New-and-Expanded-Statistical-Products-From-the-NationalMortgage-Database.aspx>.

³³ Federal Housing Finance Agency, "FHFA Releases Additional Data on Enterprise Fair Lending and Housing Goals" (September 8, 2021). Available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Releases-Additional-Data-on-Enterprise-Fair-Lending-and-Housing-Goals.aspx>.

³⁴ Research during the COVID-19 pandemic has shown that a significant racial difference for mortgage refinancing with Urban Institute finding that "The combination of low credit score and tight lending standards makes it impossible for [minority] borrowers to refinance to lower their payment or extract home equity and makes it more difficult to get a personal loan at a reasonable rate to weather this crisis." Urban Institute, "Delinquent Homeowners in Neighborhoods of Color Are Less Likely to Be Protected by Forbearance" (December 2, 2020). Also see Freddie Mac, "Almost 50% of Black and Hispanic Borrowers Could Save \$1,200 Annually by Refinancing" (May 12, 2021).

finance system for DRS to regularly release reports and/or datasets around these topics to increase transparency and industry’s analytical capabilities.

3. How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions to sustainably address the racial and ethnic homeownership gap?

As previously mentioned in our comment letter, five specific actions that the FHFA and GSEs can take to address the racial and ethnic homeownership gap are:

- 1) Review and reform LLPAs to ensure that GSE pricing reflects the many significant post-2008 crisis industry-wide improvements and do not unduly burden minority, first-time, and younger homebuyers with arbitrary and redundant costs.
- 2) Review and revise the ERCF to ensure that appropriate capital levels balance the safety and soundness of the GSEs with borrowers’ access to affordable mortgage finance in the conventional market.
- 3) As the FHFA contemplates a broad amendment to the PSPAs, USMI encourages the FHFA to remove, not just suspend, the provisions regarding “high risk” loan acquisition caps that disproportionately impact minority access to conventional mortgages.
- 4) Finalize the “Prior Approval for Enterprise Products” rule to implement a transparent process to assess pilots and new initiatives at the GSEs that could promote equity in housing finance system by facilitating increased minority homeownership opportunities.
- 5) Implement policies or directives that increase transparency around the GSEs’ credit policies and their impact on minority access to mortgage credit, and expand data sharing initiatives to enable market participants to enhance access, affordability, and sustainability in the mortgage markets.

Further, low down payment mortgages are critical for many minority borrowers to attain homeownership and begin building equity and long-term wealth. It is important for the GSEs to work with industry to create and implement programs/products in the conventional market to ensure that these borrowers have options in the conventional market during the homebuying process. One specific recommendation is for the FHFA and GSEs to retool the HomeReady and Home Possible programs that provide for affordable mortgage products that offer credit flexibilities to help borrowers attain homeownership. FHFA directed the GSEs in 2019 to make several changes to these products, most notably around the area median income (AMI) eligibility, that resulted in a significant decrease in the utilization of HomeReady and Home Possible mortgages.³⁵ USMI encourages FHFA and the GSEs to work with housing finance stakeholders on actions to expand access to the HomeReady and Home Possible programs to reach more qualified minority homebuyers by returning to the pre-July 2019 100% AMI cap.

³⁵ According to the Fannie Mae’s credit supplements, for 1H2019 (prior to the AMI changes) 8.78% of single-family loan acquisitions were HomeReady loans but by 1H2021 that figure fell to 2.84% of single-family loan acquisitions.

4. How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions for formerly redlined areas? How should such areas be defined?

A persistent issue in formerly redlined areas is property undervaluation and there is currently a robust conversation among policymakers and housing finance stakeholders around the issue of racial bias in property valuation. In fact, recent research from Freddie Mac examined potential purchase appraisal bias and found “substantial appraisal gaps for minority versus White tracts” and that “minority applicants are more likely to receive an appraisal value lower than the contract price.”³⁶ In our response to the FHFA’s December 2020 RFI on “Appraisal-Related Policies, Practices, and Processes,”³⁷ USMI expressed full support for increased collaboration between FHFA, the GSEs, and housing finance stakeholders to further study discrimination and fair housing concerns related to policies governing appraisals and property valuations. It is critical that stakeholders conduct a data-driven analysis to determine the existence of any systemic discrimination in the appraisal process and ensure that policies at the GSEs and FHFA fully support access to affordable conventional mortgages for all consumers. One action to further this aim would be to expand the number and subject matter of reports that are regularly released to the public by DRS.

Geography- (including historically redlined areas, areas of concentrated poverty, and rural areas) and income-based initiatives would be beneficial to focus the GSEs’ efforts on racial equity and target resources to communities and homebuyers who most need the assistance. Due to the fact that racial equity in the housing finance system is a complex issue and the specific challenges/issues vary by geography and other factors, broad initiatives/offers could reduce effectiveness due to challenges in terms of coordination, implementation, and measurement of success.

6. What constitutes a “meaningful” action, and what kinds of meaningful actions should be taken by the Enterprises under their plans?

The RFI makes clear that the Plans are designed to serve as a “tool for the Enterprises to undertake sustainable and meaningful actions to advance equity in the housing markets, while ensuring safety and soundness.” In the context of the GSEs’ Plans, a “meaningful action” is one that results in an observable and quantifiable outcome with the ability to clearly demonstrate that the specific action caused the outcome. “Meaningful actions” undertaken in furtherance of the Plans should therefore be measurable and produce data that can be analyzed by FHFA, the GSEs, and industry stakeholders to determine the success of various actions intended to advance equity in the housing finance system.

³⁶ Freddie Mac, “Racial and Ethnic Valuation Gaps in Home Purchase Appraisals” (September 20, 2021). Available at http://www.freddiemac.com/research/insight/20210920_home_appraisals.page?.

³⁷ Federal Housing Finance Agency, “Request for Information on Appraisal-Related Policies, Practices, and Processes” (December 28, 2020). Available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Issues-RFI-on-Appraisal-Related-Policies-Practices-and-Processes.aspx>.

7. **How can the Enterprises and FHFA ensure that actions taken under the plans provide sustainable housing opportunities and are consistent with safety and soundness?**

Increasing access to affordable homeownership is a top priority for USMI and our members. However, access and affordability without sustainability, as we have learned from the 2008 financial crisis, deeply harms borrowers, taxpayers, and the economy. Sadly, many minority borrowers, who may have less equity in their homes and/or lower incomes, have been hit hardest during these downturns. Therefore, maintaining robust underwriting standards and regulatory guardrails is critical to ensuring that the GSEs can operate in a manner that prudently expands access to mortgage credit and addresses the racial homeownership gap. Since the 2008 crisis, there have been many improvements to the housing finance system that promote safety and soundness at the GSEs, including the enhanced financial strength of their counterparties and improved industry standards and regulations.

For low down payment mortgages acquired by the GSEs, the presence of private MI helps borrowers qualify for prudently underwritten, affordable mortgages with as little as three percent down. Loan-level credit risk protection and management by private MIs allows the industry to serve as a second set of eyes during the underwriting process, ensures that mortgages in the high LTV segment of the market are sustainable, and the housing finance system benefits from private MIs' extensive access to reinsurance and capital markets to distribute mortgage credit risk.³⁸

As the GSEs work to identify different opportunities to expand access and affordability, there should be broad industry outreach and engagement early in the process, and on a regular basis. Particularly in the high LTV space, there is a significant opportunity for GSEs to engage with the MI industry as changes and proposals are considered, to assess ensure adequate risk protection is being achieved.

8. **What should FHFA consider in overseeing the Enterprises' plans? Should FHFA provide a rating or some other public assessment? If so, how should the plans be assessed?**

As described in the RFI, the annual cadence of updates and progress reports is extremely beneficial to continually monitor the GSEs' initiatives to address racial equity in the housing finance system. USMI strongly supports the requirement that the Plans and annual progress reports on implementation be publicly available and our industry welcomes the expanded access to origination and GSE data. We firmly believe that additional transparency and data sharing initiatives will better facilitate collaboration between FHFA, GSEs, and industry participants to monitor origination trends, analyze the mortgage market, and develop strategies/products to expand access to affordable mortgage credit and promote sustainable homeownership.

³⁸ MI credit risk transfer (MI-CRT) allows the MI industry to diversify capital beyond entity-based equity capital, strengthens the MIs as counterparties to lenders and the GSEs, and protect portfolios against adverse losses in housing downturns. Since 2015, the MI industry has transferred \$51.9 billion of risk on nearly \$2.4 trillion in mortgages.

9. How should the plans interact with Duty to Serve, Housing Goals, or other requirements?

The GSEs' Plans should complement and supplement their Duty to Serve (DTS) requirements and housing goals. The framework outlined in the RFI presents an opportunity for FHFA, the GSEs, and stakeholders to assess the current DTS and housing goals requirements through the lens of equitable access to the conventional mortgage market and determine if certain changes would better facilitate homeownership opportunities for minority households. This analysis would allow the GSEs to identify and better understand existing gaps in their efforts and implement changes to increase the effectiveness of their DTS and housing goal programs, as well as any new initiatives that result from their Plans.

10. Could special purpose credit programs (as defined in 12 CFR 1002.8) be included in the Enterprises' plans? How should such programs be structured?

12 CFR 1002.8 allows for lenders, both for-profit and not-for-profit entities, to create and implement special purpose credit programs (SPCPs) to increase access to mortgage financing for economically disadvantaged and traditionally underserved groups. SPCPs can employ special underwriting or pricing to “extend credit to a class of persons who, under the organization’s customary standards of creditworthiness, probably would not receive such credit or would receive it on less favorable terms than are ordinarily available to other applications applying to the organization for a similar type and amount of credit.”³⁹ One area worth exploring as it relates to SPCPs is including a waiver or reduction of LLPAs for qualified borrowers as a means to make conventional mortgages more affordable for LMI borrowers.

While SPCPs allow for increased innovation and new loan products that could expand access to increase equity in the housing finance system, their lender-by-lender nature (and requirement under existing regulations) means that they inherently have limited scalability. The GSEs and industry should work on dual tracks to explore the implementation of SPCPs while also working to expand access to HomeReady and Home Possible mortgages. The fact that these time-tested programs are offered nationwide, are scalable, and broadly understood by lenders means that they can reach more homebuyers and have a greater impact on access to credit for minority households than one-off SPCPs. These programs have been successful in helping LMI families achieve homeownership, as is evidence by the fact that Freddie Mac has helped more than 623,000 families through \$121 billion in Home Possible mortgages since 2015.⁴⁰

Further, the GSEs should explore programs to implement a conventional mortgage product similar to that proposed by Senator Mark Warner (D-VA) in his “Low-Income First Time Homebuyers Act” (LIFT Act).⁴¹ This product would be targeted to first-time, first-generational homebuyers with household incomes $\leq 120\%$ of AMI (or $\leq 140\%$ of

³⁹ 12 CFR 1002.8(a)(3)(ii).

⁴⁰ Freddie Mac, “Freddie Mac Announces Multi-Billion Dollar Bond Program Focused on Affordable Housing” (October 7, 2021). Available at <https://freddiemac.gcs-web.com/news-releases/news-release-details/freddie-mac-announces-multi-billion-dollar-bond-program-focused/>.

⁴¹ S. 2797 (117th Congress).

AMI for properties located in high cost areas) and would help homebuyers to build equity, and therefore long-term wealth, twice as fast by facilitating access to 20-year fixed-rate mortgages with approximately the same monthly payment as a traditional 30-year fixed-rate mortgage. This would be accomplished by providing a subsidy to lower the mortgage interest rate and origination fees. LIFT mortgages couple be coupled with down payment assistance (DPA) and could make meaningful strides to close the racial homeownership and wealth gaps by accelerating equity accumulation.

12. What communities and stakeholders should the Enterprises consult with in developing their plans?

USMI strongly encourages the GSEs to work closely with consumer advocates, civil rights groups, trade associations, and individual companies in the housing finance system to gain a comprehensive understanding of market trends, current barriers to sustainable homeownership, and potential solutions and tools to address equity in the housing finance system. As takers of first-loss credit risk, private MIs welcome the opportunity to further engage with FHFA and the GSEs on initiatives designed to advance equitable access to homeownership in the conventional mortgage market.

FHFA and the GSEs should consider a series of events, roundtables, and/or listening sessions on equitable housing initiatives to leverage stakeholder input and help industry participants better understand how they can increase their involvement in efforts to address equity in the housing finance system. Further, given the GSEs' prominent role in the housing finance system, the FHFA should explore how best to utilize them to convene industry participants and facilitate data sharing and research publications. Nearly every market participant – lenders, servicers, private MIs, state housing finance agencies, and housing counselors – is plugged into the GSEs' processes so it would be a natural fit for them to serve as “hubs” for equitable housing-related content, including trainings, education, and data-driven analysis. We appreciate the GSEs' work to date on initiatives to release data and analysis around the racial homeownership gap, equity in the housing finance system, appraisal gaps, supply constraints, and barriers to homeownership, and we strongly encourage the GSEs to maintain and add to these analytical workstreams.⁴²

⁴² Fannie Mae: “Another Step to Unlock Homeownership for Underserved Borrowers” (September 30, 2021), “Our Commitment to Reducing Appraisal Bias” (September 9, 2021), “Economic Recovery Kicks into High Gear as Housing Market Faces Continued Tight Supply” (April 16, 2021), “We Can’t Wait 114 Years to Close the Diversity Gap in Housing” (March 10, 2021). Freddie Mac: “Racial and Ethnic Valuation Gaps In Home Purchase Appraisals” (September 20, 2021), “The Growth of Sole-Person Households: Creating Even More Demand or Smaller, More Affordable Homes” (August 26, 2021), “Our Renewed Commitment to Equitable Housing: Follow the Data” (June 17, 2021), “Almost 50% of Black and Hispanic Borrowers Could Save \$1,200 Annually by Refinancing” (May 12, 2021), “One of the Most Important Challenges our Industry will Face: The Significant Shortage of Starter Homes” (April 15, 2021), “Working Together to Reduce Barriers and Raise Hope” (May 23, 2019), “Locked Out? Are Rising Housing Costs Barring Young Adults from Buying their First Homes?” (June 28, 2018).