



October 25, 2021

The Honorable Sandra L. Thompson
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

RE: Enterprise Equitable Housing Finance Plans

Dear Director Thompson:

On behalf of NeighborWorks America I want to thank the Federal Housing Finance Agency (FHFA) for the opportunity to provide comments in response to the Request for Information regarding the Enterprise Equitable Housing Finance Plans. We are pleased that FHFA is taking a deliberative and intentional approach to ensuring that Fannie Mae and Freddie Mac (collectively, the “GSEs” or “Enterprises”) work to address historic inequities in the housing finance marketplace. As the Enterprises work to develop their plans, FHFA should augment these efforts by working with stakeholders and the Enterprises to identify and address regulatory policies and practices that may be contributing to inequities in the housing finance marketplace.

Please note that these comments have not been submitted to or approved by NeighborWorks America’s board. These comments reflect the view of NeighborWorks America management and do not necessarily represent the views of its board members, either collectively or as individuals. These comments were developed in consultation with members of NeighborWorks America’s network of nearly 250 affiliated local and regional nonprofit organizations.

Our mission at NeighborWorks America is to create opportunities for people to live in affordable homes, improve their lives and strengthen their communities. In FY 2020, NeighborWorks organizations assisted 438,600 families with their housing needs, including creating 23,400 new homeowners, owning and managing 179,900 units of affordable rental housing, and providing counseling and education to 149,185 families buying and/or preserving a home. The NeighborWorks network also provides an extensive array of other services in their communities through resident engagement, economic development, workforce development, education, and health care programs and partnerships.

With today’s Black/white homeownership gap greater than it was at a time when housing discrimination was legal, it is clear that systemic action must be taken. This effort can be truly

successful only if it changes the way business is done. Marginal increases in loan purchases are not enough to address the decades of inequitable policies and practices that have contributed to the racial homeownership and wealth gaps. In the first planning cycle, FHFA should encourage the GSEs to demonstrate the ways in which they are making deep changes, with outcome measurements tailored not just to count loan purchases but to demonstrate the ways in which they are approaching removal and mitigation of barriers to equitable housing opportunities. Metrics and objectives are important but should not be allowed to overshadow the need for systems change. FHFA and stakeholders at large need to be able to see that obstacles to minority homeownership are being systematically cleared. It is important to build sustainable new ways of doing business that could and would persist, even if the GSEs were to exit conservatorship.

In July 2021, NeighborWorks submitted comments on the GSEs' Duty to Serve Plans, noting that the GSEs are charged with taking on a leadership role to facilitate the secondary market, but that the goals presented in their draft plans were not bold enough to produce the desired outcomes. While distinct from the Duty to Serve obligations, the Equitable Housing Finance Plans are an opportunity for FHFA and the Enterprises to take a deeper systems-based approach to dismantling the inequities in the housing finance marketplace as we know it today. This work will require open-minded and creative approaches to revisiting the Enterprises' policies and practices, both to understand the intent of the policies as well as their impact in the marketplace.

The key to the Enterprises' great power is their size and influence over the market. By wielding this power strategically, the Enterprises can create, shape, and move markets. They can drive change in all stages of the mortgage process, from marketing to underwriting, consumer counseling to loan servicing. When developing their plans, the Enterprises should also revisit the systems ingrained in the multifamily housing finance market and consider the potential to make changes there. It is with this power in mind that the Enterprises must approach development of their plans. To limit the plans to only that which the Enterprises fully control would be to miss the mark on the potential of this work.

Partnerships will be crucial to the GSEs' success in advancing equity in housing finance. To reach people and communities that have long been underserved, they must invest in the capacity of nonprofit organizations, including and especially CDFIs, as well as housing counselors. These organizations, by virtue of their direct connection and accountability to the communities they serve, can act as the bridge between these populations and the primary and secondary marketplaces. Several NeighborWorks network organizations including Fahe, Inc. and cdc b come dream. come build, have become authorized seller/servicers with both GSEs. NeighborWorks supported Fahe in setting up a "hub and spoke" lending model, which in turn created access to the secondary market for other CDFIs. This work is an example of an effective partnership model that can be expanded and replicated, and incentivizing innovation in this space could garner additional opportunities.

Building on efforts such as this, FHFA should facilitate peer sharing between national and local lenders and nonprofits to gather and disseminate best practices for creating minority homeownership opportunities, including identifying culturally-specific training and consumer education, positive rental history reporting for credit building, strategies for providing small

dollar loans to build credit, and incentivized savings programs. The GSEs can also support this work by investing in the technical assistance, technology and other resources needed to help smaller lenders reach the economies of scale needed to expand the impactful work they currently do in their local markets. For example, the GSEs could invest in helping additional CDFIs to become seller/servicers and support smaller lenders to be able to sell to those new seller/servicers.

The GSEs should focus their activities around their strengths in the secondary market, utilizing partnerships with other organizations to amplify those strengths and meet needs outside of their current business lines or even general scope. FHFA should allow and encourage opportunities to build pilots or new programs that further this goal. In that manner, NeighborWorks and other national and regional intermediaries can serve in a connecting role, helping the GSEs get to scale by pulling together lenders and cohorts around specific issues and sub-markets. This role could help bridge the gap between smaller organizations working on the ground and the GSEs, expanding access to credit and helping the GSEs to achieve their goals. To maximize their potential, the GSEs should provide financial resources, technical assistance, and training to support the work and build the capacity of their nonprofit partners.

In addition, it is critical that organizations providing housing counseling to borrowers be appropriately compensated to ensure the sustainability of these services and their continued availability for additional borrowers. Financial education and coaching for potential borrowers should be incorporated into and supported by loan products across the board, increasing the sustainability of loans and reducing risks faced by both borrowers and lenders. There is already substantial existing capacity in this space, and NeighborWorks encourages the GSEs to pursue this strategy through NeighborWorks and other entities that have already developed this expertise.

NeighborWorks encourages FHFA to restore the fields in the Uniform Residential Loan Application that collect information on participation in pre-purchase education or counseling and language preference. This data would enable performance tracking and efficient referrals back to a counselor if the borrower experiences financial distress. Using this information, the GSEs should explore a mechanism for automatic early-delinquency notification to the housing counselor.

In particular, the GSEs could address the issue of denials by providing lenders with more specific direction from their AUS for key areas to work on to include in their adverse action letters. The GSEs should also work with lenders to promote utilization of HUD-certified counselors and provide a list of qualified agencies. Moreover, the GSEs should support the development of a clear pathway for denied borrowers to be directly connected with a counselor who can work with them to address the causes for denial and eventually lead to a successful application. The GSEs should also encourage lenders to direct consumers to housing counseling organizations for post-purchase and foreclosure prevention counseling in the event that the borrower struggles with repayment.

We support the emphasis on strategies that address challenges both on the household and neighborhood scale. Place-based strategies are needed in communities that were literally redlined on the HOLC maps, but also those that have historically suffered the same ills of

disinvestment and share the same characteristics today. Defining these neighborhoods must be done carefully, and for areas that have more recently seen intensive investment, the GSEs should tailor their approach to ensure they are not adding undue displacement pressures. By virtue of their proprietary data, the GSEs are uniquely situated to understand the barriers to housing access created by their policies and procedures. Research efforts, like the work that Fannie Mae has undertaken to gain a statistical understanding of appraisal undervaluation, must be an essential component of the GSEs' pivot towards practices that intentionally advance equity in the marketplace. Recognizing that the historical practice of building in flags in the Automated Underwriting System for overvaluation—but not undervaluation—has caused harm and fomented a cycle of disinvestment in many low-income and minority communities.

Similarly, Freddie Mac's research has shown that property located in a minority tract is more likely to receive an appraisal valuation below the contract price, and that differences in comparable sale distances, comp reconciliation, variances in sale prices of comps, and possible systematic overpayment for properties by minorities cannot explain this appraisal gap.

Because of their access to proprietary data, the GSEs are positioned to identify and understand market trends that cannot be assessed by others. FHFA should take into account this asymmetry of information when reviewing the plans and consider whether it is appropriate to require that some of these data be made publicly available in the interest of transparency and accountability.

These market trends should be the basis for adjusting policies around loan level pricing, credit profiles, and more. Presently, the credit box for loan purchases is very small. While FHFA continues to evaluate and balance affordability and what is necessary for safety and soundness, the GSEs should continue to build on efforts like Fannie Mae's to move beyond FICO scores to assess creditworthiness. Using positive rental history is a promising practice to bring more—and increasingly diverse—households into the credit box. Efforts to consider alternative credit data, and develop streamlined processes for doing so, should feature prominently in the GSEs' plans.

On behalf of our network of nonprofit organizations, NeighborWorks is grateful for the opportunity to continue to work with FHFA and the GSEs to create equitable housing opportunities across the country. We look forward to continuing our engagement with the implementation of the Equitable Housing Finance plans and stand ready to assist the GSEs in this work.

Sincerely,

A handwritten signature in black ink that reads "Marietta Rodriguez". The signature is written in a cursive, flowing style.

Marietta Rodriguez
President and CEO