ISSUE: Protect Fannie Mae and Freddie Mac's Affordable Housing Mission and Affordable Housing Goals in Any Reform of the Enterprises

Both Sen. Mike Crapo, Chairman of the U.S. Senate Banking Committee, and U.S. Rep. Jeb Hensarling, Chairman of the U.S. House of Representatives Financial Services Committee have indicated that their committees will once again consider housing finance reform – plans to reform Fannie Mae and Freddie Mac (the Enterprises) and the way the secondary mortgage market functions. The Housing and Economic Recovery Act of 2008 (HERA) enacted the first set of reforms to the Enterprises following the financial crisis, and was the culmination of almost a decade of work by Congress, the Federal Reserve Board and other stakeholders.[20] The law significantly reformed their supervisory and regulatory framework, creating the Federal Housing Finance Agency (FHFA) as their new regulator. FHFA was given broad new authority over their prudential management and operations, including to set and adjust their capital reserves and to regulate their loan portfolio and the credit risk they take on and hold.

The Enterprises and Affordable Housing: the Enterprises play a critical role in housing finance, supporting over $5 trillion in mortgage loans and guarantees.[21] The Enterprises have an affirmative obligation in their charter to facilitate affordable housing that has been essential to ensuring access to affordable conventional mortgage credit for traditionally underserved borrowers and markets, including those in low-income, rural and minority communities.[22] The Enterprises' affordable housing goals require that the Enterprises guarantee a set percentage of single-family and multifamily mortgages in low- and moderate-income communities every year. Right now, they are not being utilized to their full potential. Since 2010, one or both Enterprises have failed to purchase enough loans from lenders to meet one of more of their "benchmark" single-family housing goals on several occasions. The benchmark goal is set in advance by FHFA. Even where they have meet their benchmark housing goals, on several occasions they have lagged "market" performance on their goals. The market goal is the actual number of loans that were originated in the market and eligible for the Enterprises to purchase (see Figure 8).

20 The Federal Reserve Board, 95th Annual Report 2008. https://www.federalreserve.gov/boarddocs/rptcongress/annual08/sec2/c5.htm

21 Watt, M. (2016, February 18). Prepared Remarks of Melvin L. Watt Director of FHFA at the Bipartisan Policy Center. Retrieved from https://www.fhfa.gov/Media/PublicAffairs/Pages/Prepared-Remarks-Melvin-Watt-at-BPC.aspx

22 NCRC, *Protecting Duties to Serve and Responsible Next Steps for Reforming the Secondary Mortgage Market*. (November 2015).

The Enterprises' 2015 Housing Goals

AFFORDABLE HOUSING GOALS	2015 Single Family Housing Goals: Market	Benchmark	Housing Goal Performance: Fannie Mae	Freddie Mac
Low-Income Home Purchase Goal	23.6%	24%	23.5%	22.3%
Very Low-Income Home Purchase Goal	5.8%	6%	5.6%	5.4%
Low Income Areas Home Purchase Goal	19.8%	19%	20.4%	19.0%
Low Income Areas Home Purchase Subgoal	15.2%	14%	15.6%	14.5%
Low-Income Refinance Goal	22.5%	21%	22.1%	22.8%
	Multifamily Housing Goals		Housing Goal Performance	
Low-Income Multifamily Goal (Units)	300,000		307,510	379,042
Very Low-Income Multifamily Goal (Units)	60,000		69,078	76,935
Small Property: Low-Income (Units)	6,000		$6,731.00	12,801

FIGURE 8: The Enterprises' 2015 Housing Goals (pink is where an Enterprise failed to meet the benchmark goal; gold is where an Enterprise lagged market performance) Source: NCRC.

The Enterprises and Blame for the Financial Crisis: For years, opponents in Congress and some of the largest financial players in the private market, who view them as government-sponsored competitors, have blamed the Enterprises as well as their affordable housing goals for the financial crisis. Opponents have advocated for diminishing their role in the secondary mortgage market or scrapping them entirely, including their affordable housing goals.[23] The *U.S. Financial Crisis Inquiry Report* found, however, that although the Enterprises participated in the expansion of subprime and other risky mortgages, they followed rather than led Wall Street and other lenders – they were not the primary cause.[24] In the midst of an overall housing bubble and housing market meltdown, the loans purchased or guaranteed by the Enterprises generated substantial losses, but delinquency rates for the Enterprises' loans were substantially lower than loans securitized by other financial firms.[25]

Tight Credit Access and the Enterprises in Conservatorship: In 2008, former FHFA Director Ed Demarco placed the Enterprises in conservatorship, and both were put on a path to wind down their operations – their capital reserves, their loan portfolios and to shrink their role in holding credit risk in the secondary mortgage market. Since that time, both Enterprises have implemented risk-based pricing and increased their guarantee fees by 250 percent – fees that are passed on to homebuyers.

23 For example, see Senator Johnny Isakson (R-GA) Q & A with Nominee Steve Mnuchin, *Nomination hearing of Steven Mnuchin to be Secretary of the Treasury* (January 19, 2017).

24 *U.S. Financial Crisis Inquiry Report,* National Commission on the Causes of the Financial and Economic Crisis in the United States, pursuant to Public Law 111-21 (February 25, 2011). http://fcic.law.stanford.edu/report

25 Ibid.

Also, their credit score requirements have risen substantially – 77 percent of their mortgage guarantees are for borrowers with an average credit score at or above 720 (see Table 9).[26] 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.[27] Across the mortgage market, tight credit standards are estimated to have prevented 6.3 million mortgages between 2009 and 2015 if compared with standards during historical periods of safe lending (see Figure 8).[28] As a result, the wealth-building tool of homeownership is now out of reach for too many borrowers.

Acquisition Share by Risk Profile

Product Type	2011	2012	2013	2014	2015	Change 2014 to 2015
Fixed 30-Year	58%	63%	68%	75%	76%	1%
Fixed 15-Year	27%	26%	23%	16%	17%	1%
Fixed Other Terms	7%	6%	5%	4%	5%	1%
ARM	8%	4%	3%	6%	3%	-3%
Loan Purpose						
Purchase	26%	24%	35%	57%	47%	-10%
Rate-Term Refinance	55%	58%	48%	26%	34%	8%
Cash-Out Refinance	19%	18%	17%	17%	20%	3%
LTV Ratio						
0 - 70 Percent	50%	48%	42%	29%	33%	4%
70.1 - 80 Percent	41%	40%	41%	44%	42%	-2%
80.1 - 90 Percent	5%	6%	8%	12%	12%	0%
> 90 Percent	4%	6%	9%	16%	14%	-2%
Credit Score						
>= 720	85%	87%	82%	74%	77%	2%
660 - 719	13%	12%	16%	21%	20%	-2%
< 660	2%	1%	2%	4%	4%	0%
Risk Layering						
Jumbo Conforming	12%	9%	9%	8%	9%	1%
Condo/Cooperative	9%	10%	11%	10%	10%	-1%
Investment Properties	6%	8%	11%	9%	8%	-1%

FIGURE 9. Source: Federal Housing Finance Agency (FHFA)

Who Can Act:

The U.S. Congress, the Federal Housing Finance Agency (FHFA), the U.S. Department of the Treasury

NCRC's Position:

NCRC urges Congress to protect, defend and strengthen the affordable housing goals and the affordable housing mission at the Enterprises. The Enterprises' goals and mission are critical incentives in the law that facilitate conventional mortgage credit to underserved communities. The *U.S. Financial Crisis Inquiry*

26 FHFA, *Fannie Mae and Freddie Mac Single Family Guarantee Fees In 2015* (August 2016). Table 3.

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

28 Bai, B., Goodman, L., & Zhu, J. *Overly tight credit killed 1.1 million mortgages in 2015*. (November 21, 2016)

Report, research from the Federal Reserve Board of Governors, several Federal Reserve Banks and academics have all found that the housing goals should not be blamed for the financial crisis.[29]

Regardless of how the Congress proposes to reform the secondary mortgage – with Fannie Mae and Freddie Mac or without – any new government-sponsored entities as well as any publicly financed securitization infrastructure must be subject to the affordable housing mandates and goals that the Enterprises have.

After eight years, it is time for FHFA and the U.S. Treasury to end the conservatorships of Fannie Mae and Freddie Mac. FHFA should also allow the Enterprises to increase their affordable loan product offerings, improve their pricing for low- and moderate-income borrowers, and improve marketing and outreach to African-American borrowers and other underserved communities and markets that are suffering specific setbacks in access to homeownership.

How Many Purchase Loans are Missing Because of Credit Availability

Loan category	2001, scaled to HMDA	2015, scaled to HMDA	Actual Percent decline	2015, assuming no constraint >700	Difference between >700 unconstrained and actual
FICO below 660	1,433,986	503,013	65%	1,414,087	911,074
FICO 660-700	861,047	686,073	20%	849,099	163,026
FICO above 700	2,356,516	2,323,816	1%		
Total	4,651,549	3,512,903	32.41%		**1,074,099**

Source: Urban Institute calculations based on Home Mortgage Disclosure Act, CoreLogic and eMBS data.
Note: FICO = Fair Isaac Corporation.

FIGURE 10. Source: Urban Institute

29 Ibid at note 45. See also: Federal Reserve Bank of St. Louis, *"Did Affordable Housing Legislation Contribute to the Subprime Securities Boom?"* (December 2014).