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NAFCU
National Association of Federally-Insured Credit Unions

B. Dan Berger
President & Chief Executive Officer

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The Honorable Sandra L. Thompson
Acting Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

RE: Pilot Programs to Increase Access to Mortgage Credit

Dear Acting Director Thompson:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to urge the Federal Housing Finance Agency (FHFA) to aide the government-sponsored enterprises (GSEs) in increasing opportunities for very-low, low-, and moderate-income individuals to purchase homes. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 127 million consumers with personal and small business financial service products. NAFCU has previously encouraged the FHFA to consider pilot programs for low- or zero-down payment mortgage loans that help borrowers build wealth. The FHFA should launch such pilot programs and consider additional programs targeted toward buying mortgages from Community Development Financial Institutions (CDFIs) as this will help underserved borrowers and first-time homebuyers achieve homeownership while allowing credit unions to better support their communities. Collectively, such programs will go a long way in closing the racial homeownership gap.

The National Credit Union Administration's (NCUA) Chairman Harper and the Biden Administration have been outspoken about the need to originate more loans to serve low-income, moderate income, and underserved borrowers. In September 2021, the Biden Administration announced its goals to boost affordable housing, including making single family homes available to individuals, families, and non-profit organizations rather than large investors.[1] The FHFA, through its rulemakings, has recently committed to providing the GSEs with the necessary incentives to support sustainable lending initiatives. The FHFA has also acknowledged that there is a shortage of affordable housing and recognized what it will take to boost the housing supply,

[1] The White House, FACT SHEET: Biden-Harris Administration Announces Immediate Steps to Increase Affordable Housing Supply September 1, 2021. https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/01/fact-sheet-biden-harris-administration-announces-immediate-steps-to-increase-affordable-housing-supply/

including coordinated government action.[2] Senator Sherrod Brown has also acknowledged that closing the homeownership gap requires a dedicated effort to serve all communities and that the GSEs have a mission to serve all homeowners, including low-income and communities of color.[3] NAFCU appreciates the FHFA holding the recent listening session regarding closing the gap to sustainable homeownership and fully supports this effort. There are, however, more opportunities available to the GSEs that can further close the homeownership gap and ensure that government-sponsored programs are benefiting the individuals and communities that most need them.

Wealth Building Loan Programs

One potential means of boosting affordable and sustainable housing for low-income and underserved borrowers is to participate in programs such as the Wealth Building Home Loan (WBHL) and Low Income First Time (LIFT) Home program. WBHL is structured as either a 15 or 20 year fully amortizing loan with either a fixed interest rate or a two-step rate structure, strong underwriting, and zero or low-down payment. WBHL provides a safer path to homeownership because it generates equity at a faster, more rapid rate. Traditionally, building equity faster meant high down payments, making it nearly impossible for underserved borrowers to attain wealth. Programs such as the WBHL allow for a little to no down payment as well as building equity at a faster rate.

In its reconciliation package, Congress is currently contemplating the LIFT Home program. LIFT Home would allow eligible first-time, first-generation home buyers to build wealth twice as fast than with a traditional 30-year Federal Housing Administration (FHA) loan by waiving the annual fee and offering a lower interest rate but paying a higher upfront fee and a slightly higher monthly payment overall. The interest rates and origination fees are sponsored by the Department of the Treasury (Treasury) so that the monthly payments will still be close to that of a 30-year mortgage. Treasury would then facilitate the origination of the LIFT loans by buying mortgage-backed securities (MBS) that have LIFT mortgages as collateral. Treasury would then sell LIFT MBS at a discounted rate because the underlying loan rate is under the market rate.

The GSEs could operate a similar program where they purchase WBHL mortgages, package these loans into MBS, and then sell to investors at a discounted rate, thereby incentivizing investments and creating a secondary market, which would allow more of these mortgages to be originated. Giving borrowers the opportunity to build equity in their homes at twice the rate of a comparable 30-year loan, will both expand and improve homeownership opportunities. More borrowers may be able to qualify for these loans given the credit criteria and these loans would pose less of a risk to financial institutions due to their shorter terms. Credit unions focus on community, relationship-based banking and already operate with very strong underwriting standards. In fact, credit unions have historically had low default and charge-off rates, even lower than banks. Originating safer,

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[2] FHFA, FHFA Acting Director Sandra L. Thompson's Statement on Executive Branch Housing Supply Initiative September 1, 2021. https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Acting-Director-Sandra-L-Thompsons-Statement-on-Executive-Branch-Housing-Supply-Initiative.aspx
[3] Brown Applauds New Affordable Housing Goals for Fannie Mae, Freddie Mac, August 18, 2021. https://www.brown.senate.gov/newsroom/press/release/new-affordable-housing-goals-proposal-fannie-mae-freddie-mac

more affordable loans for borrowers will, in turn, create a safer housing finance system and close the homeownership gap.

Currently, the above-mentioned wealth building programs introduced to help low-income and underserved borrowers are only being discussed in relation to FHA loans. NAFCU urges the FHFA to allow the GSEs to fulfill their statutory missions and provide opportunities for subsidized mortgage lending targeted toward the communities that most need access to mortgage credit. The GSEs' intended purpose is to help provide mortgage credit for segments of the population that otherwise may not be able to obtain access. NAFCU encourages the FHFA to evaluate programs that could help Black and brown borrowers, indigenous communities, and other underserved groups that have historically been disadvantaged and denied access to mortgage credit.

Allowing the GSEs to participate in pilot programs modeled on the WBHL and LIFT Home programs aligns with the FHFA's decision to suspend and ultimately reevaluate the problematic provisions in the Preferred Stock Purchase Agreements (PSPAs) that limit the GSEs ability to purchase certain "higher-risk" mortgages. The PSPA purchase limitations would hurt underserved borrowers and Black and brown communities if they are not entirely removed. Furthermore, the Duty to Serve (DTS) requirements obligate the GSEs to facilitate a secondary mortgage market for very low-, low-, and moderate-income families in the manufactured housing, affordable housing preservation, and rural housing underserved markets.

Allowing the GSEs to participate in wealth building loan programs directly correlates with the DTS, because the loans that benefit low-income borrowers and close the homeownership gap will be able to be sold in the secondary market, making it easier for credit unions to originate these loans and offload them from their balance sheets. NAFCU appreciates the FHFA's current policy choice to provide access to affordable housing and close the homeownership gap because it aligns with the DTS, but more can be done. To more effectively meet the spirit of the DTS requirements, the FHFA should allow the GSEs to launch pilot programs for products such as the WBHL and to establish a program akin to the LIFT Home program.

Community Development Financial Institutions (CDFIs)

CDFI is a designation given by the CDFI Fund to privately-owned financial institutions that focus on providing services to local communities that are underserved and lack access to financing.[4] CDFIs promote financial inclusion and focus on serving the needs of very-low, low-, and moderate-income communities. Further, CDFIs' vision is for all communities to have access to the financial services needed to prosper. There are currently 1,271 CDFIs and 389 of them are credit unions.[5] The CDFI fund offers programs for CDFIs that provide awards to institutions to allow them to help their communities by financing mortgage lending for first-time home buyers and being able to provide flexible underwriting for community facilities. Typically, CDFIs provide educational services such as credit counseling and homebuyer classes to help their borrowers use credit effectively and ensure they are able to keep up with their loan obligations. However, the

[4] CDFI Certification (September 23, 2021). https://www.cdfifund.gov/programs-training/certification/cdfi
[5] CDFI Cert List (September 23, 2021). https://www.cdfifund.gov/sites/cdfi/files/2021-11/CDFI_Cert_List_11172021_Final.xlsx

majority of the mortgages originated by CDFIs are considered non-conforming and the GSEs are unable to purchase these loans.

NAFCU urges the FHFA to create a separate pilot program, or incorporate into the other pilot programs described above, to allow the GSEs to buy such non-conforming loans from CDFIs because they are serving the communities that the programs are created to help. CDFIs put their communities first and they measure their success through their impact on the communities they serve, and not their profits. Inclusion and social responsibility are other main focuses of CDFIs. Despite serving predominately low-income and underserved communities, CDFIs are most times found to be more efficient than mainstream financial institutions.[6] Research shows that nationwide, CDFIs manage more than $222 billion, contributing to affordable housing, financial health and job creation.[6]

Credit unions that are classified as CDFIs are best situated to originate loans to the communities most in need, but those loans are often non-conforming as they do not meet the loan-to-value, debt-to-income, and FICO score requirements to sell to the GSEs. Recent studies have found that Black and Hispanic borrowers were more likely to be denied conventional mortgages than white borrowers.[7] The homeownership gap is widening because minorities lack access to credit, in part due to stringent regulatory requirements. The FHFA should permit the GSEs to purchase mortgages like the ones made by CDFIs to their communities through new pilot programs with less stringent purchase criteria in order to facilitate a secondary market. This would mean CDFIs could make more of these loans to support their communities and help resolve some of the access and equity issues currently impacting many borrowers.

Conclusion

NAFCU supports the direction the FHFA is moving in with its most recently proposed rule but, NAFCU urges the FHFA to allow the GSEs to participate in pilot programs and purchase mortgages that are non-conforming. If you have any questions please do not hesitate to contact me or Aminah Moore at (703) 842-2268 or amoore@nafcu.org.

Sincerely,

B. Dan Berger
President & CEO

[6] Brian Thompson, Impact Investing Through Community Development Financial Institutions (CDFIs) (January 31, 2021). https://www.forbes.com/sites/brianthompson1/2021/01/31/impact-investing-through-community-development-financial-institutions-cdfis/?sh=1f3f015b7b75
[7] Jennifer Streaks, Black families have 10 times less wealth than whites and the gap is widening – here's why (May 18, 2018). https://www.cnbc.com/2018/05/18/credit-inequality-contributes-to-the-racial-wealth-gap.html