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National Association of Federally-Insured Credit Unions

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The Honorable Maxine Waters Chairwoman Committee on Financial Services U.S. House of Representatives Washington, DC 20515	The Honorable Patrick McHenry Ranking Member Committee on Financial Services U.S. House of Representatives Washington, DC 20515

Re: Tomorrow's Hearing – Housing in America: Oversight of the Federal Housing Finance Agency

Dear Chairwoman Waters and Ranking Member McHenry:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) regarding tomorrow's hearing, "Housing in America: Oversight of the Federal Housing Finance Agency." As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 131 million consumers with personal and small business financial service products. We thank you for holding a hearing on this important topic and would like to take this opportunity to share our thoughts on a few key issues related to housing and the Federal Housing Finance Agency (FHFA).

Capital Requirements and Guarantee Fees

NAFCU has been supportive of the FHFA's efforts to allow the government-sponsored enterprises (GSEs) to rebuild capital, and we believe strong liquidity and funding requirements are an important step toward preventing another government bailout in the event of an economic downturn, however, this should not come at the cost of increased guarantee fees. Excessive liquidity requirements that treat the GSEs like large banks and establish enhanced regulatory and supervisory requirements will likely increase compliance costs for the GSEs. This has the potential to lead to negative impacts on credit unions and their members in the form of higher mortgage costs.

Increased guarantee fees on the sale of loans should not be the trade-off for the short-term liquidity build-up and other changes at the GSEs as this will serve to limit access to credit to the communities that are most in need. Now is not the time to impose additional costs on borrowers who are relying on access to mortgage credit through a loan that will be sold to the GSEs. Accordingly, in the absence of legislative action, NAFCU asks the Committee to urge the FHFA to continue to transparently communicate its expectations regarding changes to guarantee fees or other fees on sellers during this difficult economic time and on a consistent basis as the GSEs move closer to a potential release from conservatorship. Ultimately, the FHFA and U.S. Department of the Treasury should reevaluate whether it may be more appropriate for the GSEs to retain a higher level of capital to be able to operate effectively and provide greater avenues for lenders to better serve their communities.

Secure the Safety and Soundness of the GSEs in the Face of Climate Risk

NAFCU has long supported a strong regulatory and supervisory framework that protects the safety and soundness of the GSEs and Federal Home Loan Banks (FHLBs) as credit unions rely on access to the secondary mortgage market for the liquidity they need to make more loans to their members. Accordingly, NAFCU supports the FHFA's goal of promoting safe and sound operations at the GSEs and FHLBs, as it is crucial to the continued safety and soundness of the credit union system and protecting American taxpayers. NAFCU supports the incorporation of climate change into the GSEs' governance and appreciates the FHFA's focus on improving climate data collection, analysis, and reporting, as well as evaluating the risks and effects of climate change on the housing finance system.

This data-driven, research-focused approach will allow the FHFA to gather the information necessary to determine the true extent to which the markets and the GSEs may be impacted by climate change risk. Regarding external impacts, NAFCU encourages the FHFA to continue to work with other regulators, including the National Credit Union Administration and others in the Financial Stability Oversight Council, on evaluating climate risk to ensure consistency across policies impacting mortgage servicers. The FHFA should adopt a risk-based framework for regulating and supervising the GSEs in the face of climate change and should avoid implementing any policies and requirements for the GSEs that will impede credit unions' ability to sell their mortgages as this may have a disproportionate impact on minority and low-income borrowers. Ultimately, the FHFA's actions to address climate risk at the GSEs should take care to not increase costs and burdens on lenders and borrowers.

Appraisals

The FHFA has a statutory obligation to ensure that the operations and activities of the GSEs and FHLBs foster liquid, efficient, competitive, and resilient national housing finance markets. NAFCU has recommended that the FHFA promote efficiency and cost savings in the mortgage process by streamlining and modernizing the appraisal process. In recent years, as a result of the pandemic, NAFCU's member credit unions have seen an increase in the price of appraisals, especially in rural areas. There is a lack of standardization between appraisers and throughout the appraisal process, and the effects of this are carried over to the borrower in increased costs.

NAFCU supports alternative appraisal processes such as appraisal bifurcation, desktop appraisals, and exterior-only appraisals. There is a need for consistent, reliable technology to simplify the appraisal process and make it more efficient. NAFCU suggests that the FHFA continue to permit the use of technology developed to modernize the appraisal process, as well as new and emerging technology, as an alternative to traditional appraisals. Desktop appraisals proved to be much easier and just as accurate for NAFCU's member credit unions to utilize to facilitate mortgage lending. In light of this experience, the FHFA and GSEs should consider additional improvements to the appraisal process through the utilization of technological advancements and capabilities.

Multiple studies have shown that biases in appraisals exist across the board. Freddie Mac[1] and Fannie Mae[2] have found that appraisal disparities exist for communities and borrowers of color. The Consumer Financial Protection Bureau and other federal regulators, including the FHFA, have also acknowledged that appraisal discrimination plagues the mortgage market.[3] Appraisal reform and modernization through the incorporation of new technologies, models, and practices is essential to address this widely recognized issue. NAFCU also recommends that the FHFA work with the GSEs, other federal regulators, and The Appraisal Foundation to diversify the appraisal industry by expanding participation of people of color in the appraisal industry, update standards to root out bias more clearly, and provide training for appraisers to understand and identify implicit bias.

Affordable Housing and Community Development Financial Institutions (CDFIs)

NAFCU appreciates the FHFA's commitment to fostering liquidity in the mortgage markets and ensuring equitable access to the secondary market by qualified institutions and borrowers. However, there are more opportunities available to the GSEs that can further close the racial homeownership gap and ensure that government-sponsored programs are benefiting the individuals and communities that most need them. For example, NAFCU has 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 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.

NAFCU urges the FHFA to allow the GSEs to establish a Wealth Building Home Loan (WBHL) pilot program. A 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. WBHLs provide a safer path to homeownership because borrowers generate equity at a faster rate. Traditionally, building equity faster meant high down payments, making it nearly impossible for underserved borrowers to attain wealth, but the WBHL is structured in a way that requires little to no down payment and potentially only a slight increase in monthly payment amounts. Originating safer, more affordable loans for borrowers will, in turn, create a safer housing finance system and close the racial homeownership gap.

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[1] Racial and Ethnic Valuation Gaps in Home Purchase Appraisals (Sept. 2021). https://www.freddiemac.com/research/insight/20210920-home-appraisals.

[2] Appraising the Appraisal (February 2022). https://www.fanniemae.com/media/42541/display.

[3] Federal Interagency Comment Letter on Appraisal Discrimination. (Feb. 4, 2022). https://files.consumerfinance.gov/f/documents/cfpb_appraisal-discrimination_federalinteragency_comment_letter_2022-02.pdf.

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. 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 homebuyers 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, many 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 this effort into the other pilot program described above, to allow the GSEs to buy such non-conforming loans from CDFIs because they are serving the communities that the GSEs are Congressionally mandated 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.[5] 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.

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[4] CDFI Certification.https://www.cdfifund.gov/programs-training/certification/cdfi.
[5] Brian Thompson, Impact Investing Through Community Development Financial Institutions (CDFIs) (Jan. 31, 2021). https://www.forbes.com/sites/brianthompson1/2021/01/31/impact-investing-through-communitydevelopment-financial-institutions-cdfis/?sh=1f3f015b7b75.
[6] *Id*.
[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.

Conclusion

We thank you for the opportunity to share our thoughts in advance of tomorrow's hearing on FHFA oversight. Should you have any questions or require any additional information, please contact me or Jake Plevelich, NAFCU's Associate Director of Legislative Affairs, at jplevelich@nafcu.org.

Sincerely,

Greg Mesack

cc: Members of the House Financial Services Committee