United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, DC 20510–6075

November 24, 2020

The Honorable Mark A. Calabria
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Dear Director Calabria:

We are writing regarding Fannie Mae and Freddie Mac's (the Enterprises) role in helping underserved borrowers, including lower-income borrowers and borrowers of color, access affordable home loans. To better assist minority and low-income borrowers and reduce risk for the Enterprises, we request that the housing goals for 2021 increase the share of Enterprise refinance guarantees that benefit low-income families and ensure that no such homeowner is negatively affected by an adverse market fee.

The Federal Housing Finance Agency (FHFA) recently released its 2019 Annual Housing Report on the Enterprises' performance in meeting their affordable housing missions and serving the broader housing market. This report detailed the Enterprises' performance on each of their affordable housing goals and subgoals, including the low-income refinance goal. In 2019, while both Enterprises exceeded FHFA's benchmark for low-income refinances and therefore met that goal, both Enterprises guaranteed a smaller share of refinance loans to low-income borrowers than the conventional market produced.[1]

This year, with interest rates at historic lows, millions of homeowners have refinanced their loans to save money on their monthly housing expenses. During this time of growing mortgage demand and economic uncertainty, the Enterprises have been required to play an outsized role in the market as portfolio mortgage lenders and private-label securities issuers have reduced, rather than increased, lending volume.[2] It is therefore more important than ever that the Enterprises are dedicated to serving the entire housing market, including low-income homeowners.

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[1] In 2019, 23.8 percent of Fannie Mae single-family refinance loans and 22.4 percent of Freddie Mac single-family refinance loans went to low-income borrowers (defined as borrowers with incomes no greater than 80 percent of area median income), compared to 24 percent of single-family refinance loans that were made to low-income borrowers in the overall conventional market. See "Annual Housing Report: January 1, 2019 – December 31, 2019," FHFA Division of Housing Mission & Goals, available at https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Annual-Housing-Report-2020.pdf.

[2] In the first two quarters of 2019, the Urban Institute reports that portfolio and private-label security lending made up about 42 percent of single-family mortgage origination volume (about $370 billion), compared to less than 21 percent of origination volume (about $318 billion) in the first two quarters of 2020. See Urban Institute Housing Finance At A Glance: A Monthly Chartbook for October 2019, July 2020, and October 2020, available at https://www.urban.org/policy-centers/housing-finance-policy-center/publications.

But as rates have fallen, lower income and lower credit score borrowers who may disproportionately benefit from savings on their mortgage seem to be the least likely to receive low-rate refinance loans. The Urban Institute[3] and the Mortgage Bankers Association both report that it is more difficult for borrowers to qualify for an Enterprise-backed mortgage today than it was at the end of 2019.[4] In the most recent quarter, average credit scores on Fannie Mae and Freddie Mac's new single-family loan guarantees increased by 11 points[5] and 9 points, respectively, from the same time last year.[6] These new guarantees were primarily on refinance loans, which made up nearly 70 percent of Fannie Mae- and Freddie Mac-backed loans in the third quarter of 2020.[7] And in testimony before the House Financial Services Committee, you stated that in the second quarter of this year, the average refinance borrower had an income of $110,000[8], much higher than the low-income threshold in most parts of the country.[9]

Failing to adequately serve low-income homeowners could be especially harmful for families of color, who, due to the effects of discriminatory policies, tend to have lower credit scores[10] and lower incomes than white families.[11] Following the last financial crisis, homeowners of color disproportionately lost both their homes and wealth as a result of abusive subprime lending. Those borrowers who were able to stay in their homes, or who have purchased homes since, may disproportionately benefit from opportunities to refinance, but borrowers of color have recently been underserved by the Enterprises and by the refinance market.[12] According to a recent report, borrowers of color face additional refinancing hurdles. These include disproportionately higher rejection rates and a host of credit policies that limit refinancing opportunities that would lower

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[3] Housing Credit Availability Index, Q2 2020, available at https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index.

[4] Mortgage Credit Availability Index, available at https://www.mba.org/news-research-and-resources/research-and-economics/single-family-research/mortgage-credit-availability-index.

[5] Fannie Mae reported that weighted average original credit scores on single-family loans guaranteed increased from 751 in the third quarter of 2019 to 762 in the third quarter of 2020. See Fannie Mae Financial Supplement Q3 2020, October 29, 2020, available at https://www.fanniemae.com/media/36566/display.

[6] Freddie Mac reported that weighted average original credit scores on single-family loans guaranteed increased from 752 in the third quarter of 2019 to 761 in the third quarter of 2020. See Freddie Mac Third Quarter 2020 Financial Results Supplement, October 29, 2020, available at http://www.freddiemac.com/investors/financials/pdf/supplement_3q20.pdf.

[7] Fannie Mae Financial Supplement Q3 2020 and Freddie Mac Third Quarter 2020 Financial Results Supplement.

[8] Testimony of the Honorable Mark Calabria, Director, Federal Housing Finance Agency before the House Committee on Financial Services, September 16, 2020.

[9] In its latest data, HUD reported that 80 percent of area median income (the threshold for low-income) for a family of four exceeded $110,000 in only four of more than 4,750 jurisdictions. In Dayton, Ohio, 80 percent of area median income for a family of four was $58,250, while it was $66,350 in Atlantic City, New Jersey. "Income Limits," U.S. Department of Housing and Urban Development Office of Policy Development and Research, available at https://www.huduser.gov/portal/datasets/il.html#2020_data.

[10] "Covid-19 and Access to Mortgage Credit," Laurie Goodman, Urban Institute, June 25, 2020, available at https://www.newyorkfed.org/medialibrary/media/outreach-and-education/Event_0625-2020_Goodman-Urban%20Institute.

[11] "Income and Poverty in the United States: 2019," Jessica Semega, Melissa Kollar, Emily A. Shrider, and John F. Creamer, United States Census Bureau, September 2020, available at https://www.census.gov/content/dam/Census/library/publications/2020/demo/p60-270.pdf.

[12] "Preliminary Analysis Of 2019 Home Mortgage Lending Data," Jason Richardson and Jad Edlebi, June 30, 2020, available at https://ncrc.org/preliminary-analysis-of-2019-hdma-mortgage-lending-data/.

the cost of their mortgage and their risk of default.[13] These policies, if not fully addressed by the Enterprises, will continue to contribute to borrowers of color paying higher interest rates and thus more for their homes, and saving less than their white counterparts.

During this public health crisis, helping families reduce their expenses and stay safe in their homes is as important as ever. Reducing borrowers' payments both saves borrowers money and reduces the risk that they will be unable to pay their loan in the future, reducing risk for the Enterprises. It is therefore essential that the Enterprises renew their focus on facilitating safe, affordable refinance loans that are financially beneficial to low-income homeowners. As FHFA sets the Enterprises' housing goals for 2021, it should therefore increase expectations for the share of Enterprise refinance guarantees that benefit low-income families and ensure that no low-income homeowner sees their savings reduced as a result of an adverse market charge.

The Enterprises play a vital role in facilitating access to affordable mortgage loans. At a time when families are facing economic uncertainty, we must ensure that those affordable loans benefit the low-income borrowers who need them. Thank you for your prompt attention to this important matter.

Sincerely,

Sherrod Brown
United States Senator

Robert Menendez
United States Senator

Chris Van Hollen
United States Senator

Elizabeth Warren
United States Senator

Brian Schatz
United States Senator

Mark Warner
United States Senator

[13] "The Unequal Cost of Black Homeownership," Michelle Aronowitz, Edward L. Golding, Jung Hyun Choi, October 1, 2020, available at http://gcfp.mit.edu/wp-content/uploads/2020/10/Mortgage-Cost-for-Black-Homeowners-10.1.pdf