August 14, 2023

Sandra L. Thompson
Federal Housing Finance Agency
Office of Capital Policy
400 7th Street SW, 9th Floor
Washington, DC 20219

RE: Request for Input on Fannie Mae and Freddie Mac Single-family Mortgage Pricing Framework

Dear Director Thompson:

Thank you for the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Fannie Mae and Freddie Mac Single-family Mortgage Pricing Framework (the Framework). Fannie Mae and Freddie Mac play a critical role in our country's housing finance systems and their policies and pricing have far-reaching consequences for homeowners and people seeking to purchase homes. Homeownership is the most important wealth-building opportunity available to most Americans, but many aspiring homebuyers in Black and Brown communities as well as in immigrant communities face significant barriers to buying a home. The racial wealth gap, a legacy of segregation and redlining, makes it challenging for many Black and Latino households to make the sizeable down payments needed in today's housing market. And well-documented appraisal bias, discrimination in mortgage lending, and predatory lending targeting communities of color create additional barriers. Given the consequences of these disparities in people's lives, it is critical that the Framework and FHFA's broader approach to policy focus on racial equity to address these issues. Updating the Framework is an important component of this work, but it is critical that FHFA also address the role the GSEs' credit standards play in perpetuating longstanding racial disparities in homeownership and opportunities to build generational wealth.

We appreciate FHFA's attention to these issues and action to date. For example, reducing pricing disparities based on credit score, permitting the use of alternative documentation for people with limited or damaged credit histories, and reducing guarantee fees for under-resourced homebuyers will all help advance equitable access to homeownership. These are all critically important steps, and there is more FHFA can do to advance racial and economic justice in the housing finance system.

About Inclusiv

At Inclusiv, we believe that true financial inclusion and empowerment is a fundamental right. We dedicate ourselves to closing the gaps and removing barriers to financial opportunities for people living in distressed and underserved communities. Inclusiv is a certified CDFI intermediary that transforms local progress into lasting national change. We provide capital, make connections, build capacity, develop innovative products and services and advocate for our member community development credit unions (CDCUs). Our more than 470 member credit unions serve more than 18 million residents of low-income urban, rural and reservation-based communities across the US and hold more than $265 billion in community-controlled assets.

Reduce Upfront Guarantee Fees for High-Impact Loans and Loans Made by CDFIs
Although FHFA has recently worked to update the Enterprises' guarantee fee pricing framework to lower fees on loans made to low-income homebuyers, continuing to use risk-based pricing to set the Enterprises' upfront guarantee fees has the effect of penalizing borrowers of color.

FHFA's October 2022 pricing changes that eliminated upfront guarantee fees for "first-time homebuyers at or below 100 percent of AMI in most of the United States and below 120 percent of AMI in high cost areas, HomeReady and Home Possible loans, HFA Preferred and HFA Advantage loans (Fannie Mae and Freddie Mac's respective Housing Finance Agency loan programs), and single-family loans supporting the Duty to Serve program" were a critically important step toward increasing access to homeownership for low-income households.

However, many of the barriers to homeownership described above apply to moderate-, middle- and even upper-income Black, Latino and immigrant homebuyers, not just low-income homebuyers. These borrowers can have lower credit scores than white, non-immigrant households at the same income level and less ability to make 20% down payments as a result of structural racism—from a lack of generational wealth to being targeted for credit-damaging predatory loans to having less access to safe and affordable financial services. To address this issue, FHFA should eliminate the upfront guarantee fees charged to Community Development Financial Institutions (CDFIs) and other high-impact lenders like Minority Depository Institutions (MDIs) that make affordable, sustainable loans to people of color.

Reliance on Credit Scores Perpetuates Inequality
Traditional credit systems often rely on a set of standard metrics to determine an individual's creditworthiness. This traditional approach, however, can exclude a significant number of people who may not have conventional credit histories or whose credit does not meet the Enterprises' credit box — typically designed for those with the best credit scores, highest incomes and most assets. This approach perpetuates economic inequality. People without access to credit or those without the best credit scores, highest incomes and most assets are often unable to secure loans for important financial steps like buying a home or starting a business. They may also face higher costs for services like insurance, utilities, and face barriers to employment, as accessing these services and opportunities often require credit checks.

One of the best ways to reduce the inequities driven by the use of traditional credit scores is by incorporating alternative documentation for those without traditional credit, those with not enough traditional credit or those with damaged credit, which can stay on credit reports for ten years or more. This alternative documentation can include optional consideration of payment history for utilities, rent, and even subscriptions like streaming services or gym memberships. Some companies are already using this approach, but it requires regulatory support and technological infrastructure to become widespread.

FHFA has already taken important steps to expand its use of alternative credit scoring methodologies by allowing the Enterprises to use FICO 10T and VantageScore 4.0, and allowing Fannie Mae to use on-time rental payment history for certain borrowers. And has reduced the difference in loan-level pricing

adjustments between borrowers with high credit scores and low credit scores. To build on this work, FHFA should expand eligibility for on-time rental payment history consideration to all potential borrowers, not just those with a FICO score of 620 or higher, and develop a pilot program to purchase loans from CDFIs and MDIs without credit score requirements or risk-based pricing adjustments.

Ensure Mission-Driven Lenders Have Access to Freddie Mac's Bulk Desk
For the past three years, Freddie Mac, which has been the Enterprise most amenable to purchasing high-impact loans, has had its bulk desk closed. Reopening the bulk desk is a basic step needed to ensure FHFA supports mission-driven lenders in broadening access to sustainable homeownership. Benefits of re-opening the bulk desk and of broadening secondary market access more generally include:

- Liquidity: enables lenders to free up capital for new lending activities or other investments.
- Risk management: lenders can transfer some or all of the credit risk associated with those loans to other investors, reducing the concentration of risk in their loan portfolios.
- Profitability: lenders can earn premiums through secondary market sales.
- Regulatory compliance: By selling loans, lenders can adjust their balance sheets to comply with regulatory guidelines and maintain a healthy financial position.
- Increased lending capacity: By replenishing their funds, lenders can continue to provide loans to borrowers, supporting economic growth and development.
- Portfolio management: Lenders can strategically buy and sell loans to optimize their portfolio health, aligning with their risk appetite and business goals.
- Diversification: Secondary markets offer lenders the opportunity to diversify their loan portfolios by selling loans in one market and investing in loans in another market. This diversification can help lenders mitigate risks associated with specific industries, regions, or borrower types.

Overall, the absence of a secondary market can limit lenders' liquidity, profitability, risk management options, and portfolio management capabilities. It can also create challenges in meeting regulatory requirements.

Thank you for the opportunity to comment on the Framework and provide input on these critical issues. For any questions regarding these comments, please contact Alexis Iwanisziw, SVP Policy & Communications at Inclusiv (aiwanisziw@inclusiv.org).

Sincerely,

Eben Sheaffer
Chief Financial Officer, Inclusiv