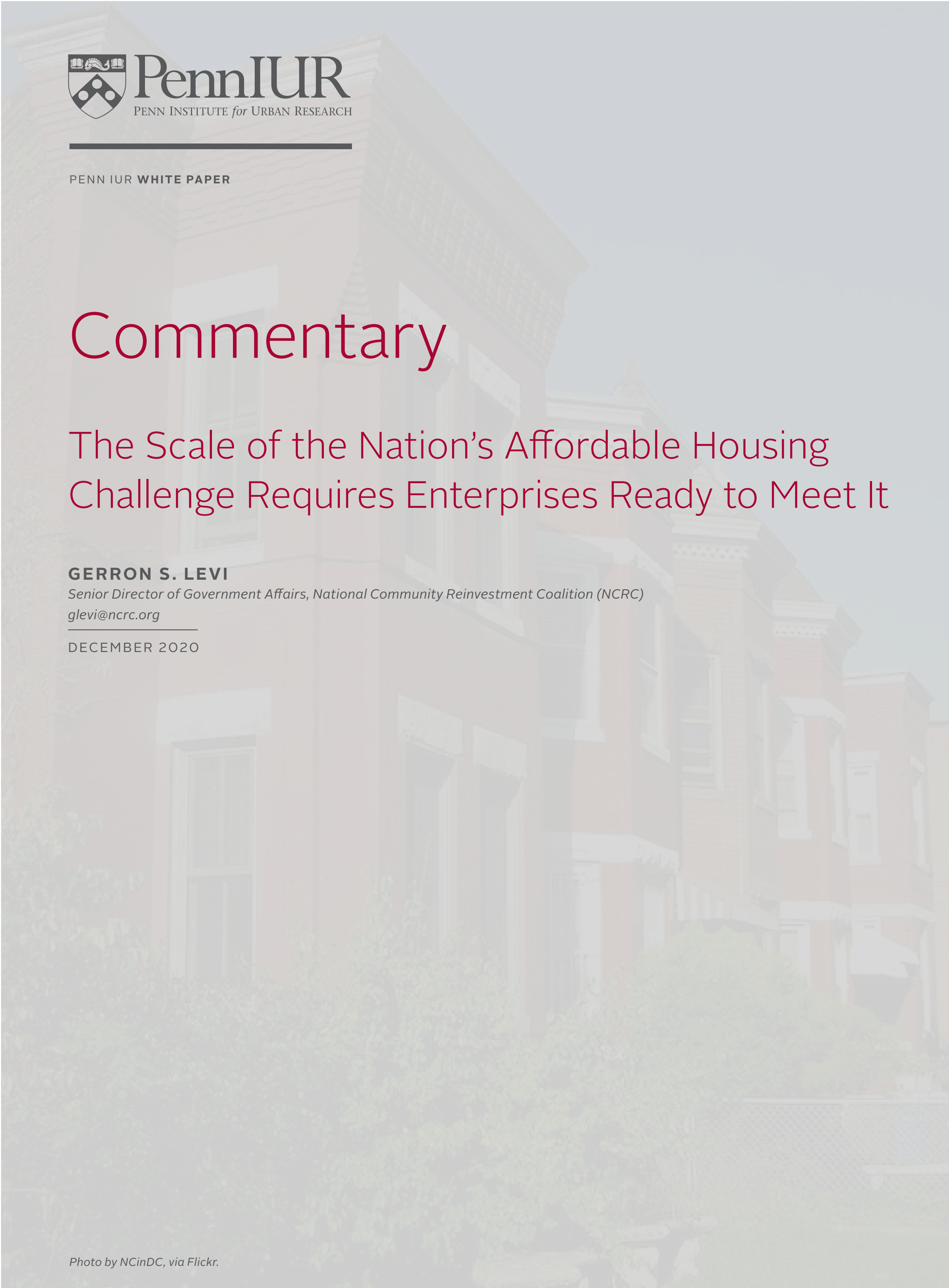

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Commentary

The Scale of the Nation's Affordable Housing Challenge Requires Enterprises Ready to Meet It

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Even with a conservatorship that has constrained many of the key functions of these institutions, Fannie Mae and Freddie Mac remain vital participants in the nation's affordable housing ecosystem. Going forward, it is critical that they not be hamstrung by excessive capital requirements that will make mortgage credit more unaffordable for low- and moderate income and minority borrowers and communities, and undermine the ability of the Enterprises to help meet the scale of the affordable housing challenges facing the nation. The Enterprises' conservatorship has imposed limits on the Enterprises' affordable housing activities, including loan product development, guarantee fee pricing, investments and outreach; it should be ended. Transitioning to a utility model offers several potential benefits: a lower cost of capital; an opportunity to stabilize and achieve better guarantee fees and mortgage rates; and, the opportunity for greater excess profits to carry out their public mission (Cooperstein, Fears and Wachter). The U.S Treasury's warrants for 80 percent of the Enterprises common shares also offer an opportunity to put a substantial down payment toward solving the nation's affordable housing supply problems – single family and multifamily.

Both companies have the scale to be vibrant market participants that lead and innovate. Not only by purchasing loans originated in the primary mortgage market, but also by developing affordable loan products that extend safe and sustainable conventional credit to underserved borrowers and markets; by conducting critical research into the gaps in the market - geographical areas and market segments - where significant credit and housing needs exist that are not being met; by making key investments and developing partnerships that build the capacity of community stakeholders to reach and serve traditionally underserved markets; and conducting the marketing and outreach that help educate and build a new generation of homeowners prepared for the responsibility of homeownership and able to benefit from the wealth-building potential it can represent.

Fannie Mae and Freddie Mac can and must help lead the way in solving a number of interrelated and complicated challenges: closing the racial wealth gap related closely to the black-white homeownership gap; preserving homeownership and home equity in the midst of a pandemic with disproportionate health and economic impacts for minority households; expanding the nation's affordable housing supply which means supporting solutions in high cost markets and rehabilitating existing housing stock.

Freddie Mac, for example, has identified millions of "mortgage ready" millennials, including 1.7 million mortgage ready Black millennials in 31 large metropolitan areas who are no older than 40, with good credit history, a credit score of 620+, and a debt-to-income ratio of 25% or less. Getting those "mortgage-ready" millennials into a home can help close the black-white homeownership gap and the racial wealth gap, but it requires solving for several known barriers in some of those markets: homes that are unaffordable, aging homes that are affordable but require rehabilitation financing and know-how, assistance with a down payment, and/or my own personal favorite, a mechanism to ensure that homeowner have funds set aside and available to withstand the unexpected. This is not easy work, it requires a laser-like focus on a national priority and the kind of market research, loan product development, corralling of stakeholders and outreach that the Enterprises backed by private capital but with a public mission were chartered to do.

In the midst of this pandemic, the Enterprises 2021 affordable housing goals should also be set to encourage them to purchase more rate and term refinance loans that are for low-income families. The Enterprises' refinance acquisitions in the second quarter of 2020 had higher credit scores, lower DTIs and lower loan-to-value ratios. Golding et. al. and Gerardi et. al. make an evidence-based case that a national HARP 3.0 streamlined refinance program for government insured and guaranteed loans would do the much to lower default risk across government-backed lending programs, preserve homeownership, lower mortgage payments, provide economic stimulus, and provide disproportionately benefits for Black and Hispanic borrowers.

From affordable housing supply to small mortgage finance to down payment assistance and homeowner resilience to expanding and strengthening black homeownership, Fannie Mae and Freddie Mac have a public mission and the scale to influence some of the larger affordable housing challenges. They are one piece in a complicated, multiprong national strategy that must be focused on preserving and expanding access to homeownership.