August 31, 2020

Dr. Mark Calabria, Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20219

Dear Dr. Calabria:

On behalf of the nation's state Housing Finance Agencies (HFAs), the National Council of State Housing Agencies[1] (NCSHA) writes in response to the Federal Housing Finance Agency's (FHFA's) request for comments on its notice of proposed rulemaking on the Enterprise Regulatory Capital Framework (the Framework).

While we fully understand the importance of establishing new regulatory capital rules for Fannie Mae and Freddie Mac ("the Enterprises"), the Framework as proposed is so badly flawed NCSHA urges FHFA to rescind it.

FHFA should restart the rulemaking process with a more holistic approach that considers not only the Enterprises' obligation to facilitate liquidity – which the Framework acknowledges – but also their mandates to support financing for affordable multifamily housing and facilitate the availability of single-family mortgage financing nationwide – which the Framework all but ignores.

FHFA also should publish any research it or the Enterprises have conducted on how the capital standards will impact the Enterprises' ability to support financing for affordable single-family and multifamily lending and promote access to credit in the underserved markets the Enterprises are statutorily required to serve.

The balance of this letter provides brief overviews of state HFAs and their partnership with the Enterprises; summarizes NCSHA's comments on the Framework; and provides our detailed comments on the Framework.

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[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

Overview of State HFAs and their Partnership with the Enterprises

State HFAs are the centers of the affordable housing delivery systems in their states. They were created by their states to be the primary mission-based source of mortgage financing for lower-income households and affordable rental developers operating in their states, as well as in the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands.

In 2019, state HFA programs provided more than $31.8 billion to an estimated 165,400 homebuyers. This includes an estimated $10.3 billion of Enterprise financing, which helped over 51,000 homebuyers. Twenty-eight state HFAs are sellers and/or servicers for one or both of the Enterprises. HFAs have partnered with Fannie Mae and Freddie Mae to extend billions of dollars in credit to tens of thousands of homebuyers over the past several years. At the end of 2019, state HFA portfolios held more than $26 billion of Enterprise mortgage products.

HFAs generally serve borrowers and market segments the typical Fannie Mae or Freddie Mac seller/servicers or multifamily lenders do not. The borrowers who use HFA homeownership programs are more likely to have lower incomes, purchase lower-priced homes, and use smaller down-payments than the average Enterprise borrower. Additionally, on average, state HFA homeownership programs generally serve larger percentages of borrowers of color with their combination first-mortgage and down payment assistance programs than other lending programs in their states.

State HFAs also play a pivotal role in affordable multifamily housing by financing acquisition, construction, or rehabilitation by issuing tax-exempt, taxable, nonprofit, or governmental purpose bonds (Multifamily Bonds). In 2018, Multifamily Bonds financed more than 1.4 million units in more than 17,300 properties. In that same year, the Enterprises credit-enhanced more than $340 million of the $1.24 billion—about 28 percent—of state HFA bond issuances utilizing credit enhancement or insurance.

State HFAs built productive, mutually beneficial relationships with the Enterprises over the years because working with them often allows them to serve their states' low-income and first-time homebuyers better than they could without such help. These partnerships have helped state HFAs attract more lenders to their programs, which has in turn enabled them to broaden their impact within their states.

The Enterprises have benefited greatly from working with HFAs, receiving a diverse pipeline of high performing loans, gaining access to markets and borrowers they could not otherwise efficiently serve, and having partners with whom they could innovate as needed to address statutory "duty-to-serve" requirements in areas such as manufactured and rural housing.

As recently as 2018, Fannie Mae said of its flagship program with state HFAs, "HFA Preferred is ideal for borrowers who have limited funds for down payment and closing costs and for those needing extra flexibilities on credit and income sources."[2]

[2] Fannie Mae, "2018 Annual Housing Activities Report and Annual Mortgage Report."

That same year, Freddie Mac said: "Freddie Mac recognizes the vital role housing finance agencies (HFAs) play in providing financing and programs that create housing opportunities for low to moderate income borrowers, and believes working collaboratively with HFAs is critical to advancing affordable, sustainable homeownership."[3]

Regrettably, the Enterprises placed new restrictions on their HFA single-family products in 2019 that greatly diminished the benefits such products offer to borrowers. Recently, the Enterprises have prohibited homeowners who received a mortgage via a risk-sharing program, including an HFA risk-sharing program, from using the COVID-19 loss mitigation waterfall. The Enterprises have told NCSHA that they made these and other similar moves in order to reflect FHFA's expectations and requirements.

As the Enterprises' own comments on the rules make clear, the Framework will increase borrowing costs for first-time and low- to moderate-income (LMI) homebuyers and sponsors of affordable multifamily rental properties. The Framework will further impair and reduce the Enterprises' support for affordable homeownership and rental finance even further than their recent moves described above, setting back our mutual affordable housing objectives.

Summary of NCSHA's Comments on the Proposed Framework

Again, as stated above, NCSHA urges FHFA to rescind the proposed Framework and develop new standards that incorporate both the Enterprises' obligation to facilitate liquidity and their responsibility to support affordable housing. As part of this effort, FHFA should make public any relevant research it or the Enterprises have conducted on how the capital standards will impact the Enterprises' affordable housing mission and activities.

FHFA should provide ranges and estimates of the impact on the cost of single-family and multifamily finance so market participants may better understand the impact of the proposed Framework. FHFA also should disclose what the impact on access to capital will be, including how many people would have been disqualified from becoming homeowners since 2008 if the proposed Framework had been in place since then, as well as how many affordable multifamily transactions would not have closed and affordable rental units would not have been built or rehabbed.

FHFA should revise the Framework to:

- Exempt state HFA down payment assistance (DPA) programs from the higher capital requirements applied to other subordinate financing;
- Exempt state HFA program loans from third-party originator risk adjustments;
- Eliminate the proposed risk adjustment for loans that allow borrowers to remove their mortgage insurance after the LTV drops below 80 percent (upon a borrower's request) or 78 percent (automatically);

[3] Freddie Mac, "2018 Annual Housing Activities Report."

- Consider ways risk adjustors can favorably take into account alternatives to credit scores for first-time and low- to moderate income homebuyers and people of color;
- Remove the condominium risk multiplier of 1.1;
- Minimize penalties and introduce flexibilities into its Framework that would accommodate innovative products, such as HomeStyle and CHOICERenovation, that enable homeowners to modernize their homes; and
- Develop risk adjusters that properly differentiate the true risks affordable mortgage loans originated through state HFA programs pose and the myriad ways they manage and oversee their loan performance and third-party lender partners.

FHFA should update its capital needs modeling to more accurately reflect current loan product types and exclude deferred tax asset losses.

FHFA should lower the risk adjustments for affordable rental properties that use additional subsidies, supplemental tenant services, Housing Credit- and tax-exempt bond-financing, property tax abatement, energy retrofits, or income diversification.

FHFA should re-examine the risk weighting for small multifamily loans – perhaps in conjunction with any of the above-mentioned characteristics common to affordable rental properties – so as to more accurately reflect the risks posed by affordable small multifamily properties.

FHFA should make its final Framework flexible enough to adapt to an evolving market where new ideas are likely to emerge and should be valued and encouraged.

NCSHA's Detailed Comments on the Proposed Framework

1. The Framework disregards the Enterprises' statutory LMI housing mandate.

FHFA argues in the Framework that the proposed capital standards will ensure that each Enterprise will "fulfill its statutory mission to provide stability and ongoing assistance to the secondary mortgage market across the economic cycle." It is true that both Fannie Mae and Freddie Mac have a statutorily obligated duty, laid out clearly in each of their charters, to "provide stability and ongoing assistance to the secondary mortgage market."

However, FHFA makes no mention in the proposed rule of some of the Enterprises' other statutorily obligated duties. The charters for both Fannie Mae and Freddie Mac specifically state each Enterprise's duty to provide ongoing assistance to the market includes support for "activities relating to mortgages on housing for low and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities." The Enterprises are also assigned the specific duty to promote access to mortgage credit throughout the nation, "including central cities, rural areas, and underserved markets."

These specifically enumerated obligations have prompted the Enterprises to support affordable homeownership lending for millions of working families and to fund numerous affordable rental properties. However, despite a worsening affordable housing crisis in our country, there is no evidence FHFA considered these mandates when developing the new capital requirements. The proposed Framework does not include any analysis or findings on how the standards might impact the availability of affordable homeownership lending, financing for affordable multifamily housing, or access to mortgage credit in underserved markets. In fact, affordable housing is not mentioned at all in the proposed Framework. Nor is the availability of credit in rural areas, in urban cores, or in other underserved markets

Fannie Mae and Freddie Mac are publicly chartered corporations with public missions. Their purpose is not to simply establish a maximally efficient housing finance system but one that works for all American families. As we will explain in more detail below, the proposed Framework contains many provisions that would detract from the Enterprises' affordable housing obligations.

NCSHA urges FHFA to rescind the proposed capital standards and promulgate new standards through a more holistic approach that considers not only the Enterprises' obligation to facilitate liquidity, but also their mandates to support financing for affordable multifamily housing and facilitate the availability of mortgage financing nationwide.

FHFA also should publish any research it or the Enterprises have conducted on how the capital standards will impact the Enterprises' ability to support financing for affordable single-family and multifamily lending and promote access to credit in the underserved markets the Enterprises are statutorily required to serve.

2. The Framework will lead to increased Enterprise guarantee fees and higher mortgage interest rates for single-family and multifamily borrowers.

NCSHA understands that FHFA believes the Enterprises will need more capital to reflect the credit risk of its single-family and multifamily loan programs. Given that the true cost of credit capital is driven by <u>both</u> the amount of credit capital required to be held <u>and</u> the return that each Enterprise must provide to investors on the credit capital held, higher regulatory capital requirements will magnify likely guarantee fee increases. These fee increases will drive up the cost of mortgage finance for those who can least afford it, making it all the more difficult for state HFAs to offer conventional products to help first-time homebuyers, people of color, and other low-to-moderate income people purchase a home.

Unfortunately, it is impossible to know from the proposed Framework or the analyses provided by FHFA what the Framework's impact on the cost and availability of mortgage finance would be for a range of single-family and multifamily mortgage exposures. FHFA should have provided this information to make transparent the Framework's impact on single-family and multifamily mortgage finance. However, the Enterprises' comment letters to FHFA also suggest the Framework will lead to higher fees and increased homeownership and rental financing costs.

FHFA should provide ranges and estimates of the impact on the cost of single-family and multifamily finance so market participants may better understand the impact of the proposed Framework. FHFA should also disclose what the impact on access to capital will be, including how many people would have been disqualified from becoming homeowners since 2008 if the proposed Framework had been in place since then, as well as how many affordable multifamily transactions would not have closed and affordable rental units would not have been built or rehabbed.

3. The proposed Framework will make it more difficult for first-time and low- to moderate-income (LMI) homebuyers to obtain mortgages, including people of color who are more likely to lack access to family wealth to make 20 percent down payments.

The additive nature of the proposed Framework's calculations of credit risk capital requirements will result in first-time and low- to moderate-income homebuyers paying more for their mortgage loans. These borrowers, on whom state HFAs focus their homeownership programs, use down payment assistance (DPA) ("subordination" in the Framework), make smaller down payments (and have, as a result, higher original loan-to-value ratios (OLTVs)), and often have lower credit scores.

Because the Framework's approach requires an Enterprise to layer each characteristic on top of each other to determine risk capital, the affordable sector will be hit particularly hard by interest rate increases the Framework would lead to for such borrowers. FHFA should re-examine its reliance on and weighting of the following elements in particular:

<u>Subordinate Financing</u>**.** FHFA assumes that all subordinate financing, one of the most common forms of which is DPA, can be characterized by the OLTV and subordination amount. But there are other characteristics that are also important, including what, if any, repayment there is on the subordinate loan—when (or if) it must be repaid. Many state HFA DPA programs include "silent" second options for which an interest rate is not charged or have deferred payment options. FHFA's Framework does not allow for the lower risk these borrower-friendly structures pose, effectively lumping all state HFA down payment assistance programs together with all other types of subordinate financing.

FHFA should exempt state HFA DPA programs from the higher capital requirements applied to other subordinate financing.

<u>Third Party Originators</u>. FHFA should exempt state HFA loans from the risk multiplier of 1.1 the Framework would apply to all loans originated by a third-party. State HFAs rely on their networks of lenders to originate their affordable mortgage program loans and exercise extensive quality control over their lenders' loans. State HFAs monitor their lender partners closely and perform multiple levels of quality control on the loans originated by their lender partners prior to sale.

FHFA should exempt state HFA program loans from third-party originator risk adjustments.

<u>Mortgage Insurance</u>. Borrowers with OLTV mortgage loans above 80 percent are required to purchase mortgage insurance (MI). FHFA's proposed Framework would cause borrowers with MI to have

higher interest rates unless they agree to maintain MI for the life of the loan instead of the customary policy of removing MI after the LTV reaches 80 percent (upon borrower's request) or 78 percent (automatically), because FHFA would require a higher risk adjustment for loans where the MI may be removed. Generally, the credit risk is equivalent for loans with the same LTV, whether or not the homebuyer achieved that LTV by amortization or because they used a large downpayment. Therefore, why needlessly cause lower income homeowners—who are less likely to make large downpayments and more likely to obtain MI—to pay more for their mortgage loan over the life of their loan?

FHFA should eliminate the proposed risk adjustment for loans that allow borrowers to remove their mortgage insurance after the LTV drops below 80 percent (upon a borrower's request) or 78 percent (automatically).

Additionally, FHFA appears not to have considered its proposal's operational ramifications, including that risk profiles and credit enhancement factors for different MI companies would vary by company and by Enterprise. First, since each Enterprise determines its own methodology for rating mortgage insurance providers, the rating could be different between the two Enterprises for any given company.

How is a mortgage lender (or state HFA) to know which mortgage insurers have a more favorable rating so they can factor that information into their business decisions? Will the Enterprise risk ratings for mortgage insurers be made public? Second, for state HFAs that work with dozens of lenders (and in a number of cases, more than 100) at any given time, it will be an operational nightmare to have lenders with potentially differently-priced mortgage insurance providers offering the same program loan. What will be the pooling implications for mortgages? We are also concerned the Framework would require state HFAs to determine the pooling and liquidity strategy for their loans much earlier in the process, reducing the flexibility state HFAs need.

<u>Credit Score</u>. The Framework relies too heavily on credit scoring and OLTV. These measures, applied without other considerations, disqualify too many creditworthy borrowers. Compounding this is the fact that FHFA has not proposed any supplemental methodology for borrower qualification that would enable a mortgage lender to take into account additional characteristics indicating creditworthiness, including on-time rent, phone bill, and utility payments. Relying too much on credit scores is also likely to make it harder for people of color to become homeowners.

FHFA should consider ways risk adjustors can favorably take into account alternatives to credit scores for first-time and low- to moderate income homebuyers and people of color.

<u>Condominiums</u>. In high-cost or urban areas, condominiums often are the most affordable entry-level homeownership opportunities for first-time homebuyers. While they represent different collateral risk than single-unit detached single-family homes, what is FHFA's basis for subjecting condominium loans to a higher risk adjustment? Both Enterprises maintain a Project Approval List, requiring a condominium project to be "approved" for delivery of a mortgage loan secured by a unit in that condominium. Project

approval involves an extensive "underwriting" of the viability of that condominium project and ensures that units in the most well-run/managed condominium units secure Enterprise mortgage loans.

FHFA should remove the condominium risk multiplier of 1.1.

Mortgage Loans Originated Based on an As-Completed Value. The Framework does not seem to take into account that both Enterprises permit delivery of mortgage loans underwritten off of an "as-completed" value (e.g., HomeStyle and ChoiceRenovation). Because the improvements would not have been made at the time of loan purchase, these products could be considered to be high-LTV loans with significantly higher base risk weights. When disbursed, loan proceeds are used to both purchase the property and fund an escrow from which funds for the documented property improvements will be spent. At the end of rehab, the LTV will be less than it was at origination because, through rehabilitation, the property's value will have increased.

Purchase-rehab products are important to purchasers of America's older housing stock. Two years ago, Housing Wire[4] reported the median age of owner-occupied homes in the US is 37 years. In Massachusetts, where MassHousing lenders offer Enterprise purchase-rehab products, more than half of the housing stock in the state is more than 50 years old. Approximately 60 percent of all its housing units were built in 1969 or earlier, and almost a third were built before 1939. Many states, particularly in the Northeast and industrial Midwest, have similarly aged housing stock.

FHFA should minimize penalties and introduce flexibilities into its Framework that would accommodate innovative products, such as HomeStyle and CHOICERenovation, that enable homeowners to modernize their homes.

Homebuyer Education and Unemployment Insurance**.** FHFA's Framework fails to consider one of the most common risk mitigants used by the affordable housing industry and state HFAs to ensure first-time homebuyers understand homeownership and their obligations to their mortgage lenders: housing counseling.

FHFA should revise its risk adjustment matrices to favorably treat loans where borrowers receive homebuyer counseling from a HUD-certified housing counseling agency. According to the U.S. Department of Housing and Urban Development's (HUD) website[5], a 2013 large-scale study of almost 75,000 borrowers by NeighborWorksAmerica found that those who had participated in the NeighborWorks homeownership education and counseling programs were one-third less likely to become 90 days or more delinquent during the two years after they obtained their loans.

The Framework also does not allow for consideration of other risk mitigants state HFAs offer. One such example is MassHousing's MIPlus program. During the first 10 years of the loan, this program offers homebuyers a total of six months of unemployment benefit payments equal to the principal and interest payments due on the mortgage, up to a maximum of $2,000 per payment. That this program has had value

[4] https://www.housingwire.com/articles/46427-housing-stock-age-shows-desperate-need-for-new-construction/
[5] https://www.huduser.gov/portal/periodicals/em/spring16/highlight2.html

to an Enterprise is evident: since March, when the COVID-19 pandemic began, MassHousing has made approximately half a million dollars of mortgage payments under its MI Plus program to the Enterprises on behalf of affected homeowners, ultimately reducing the amount of payments deferred under the COVID-19 loss mitigation waterfall.

FHFA should develop risk adjusters that properly differentiate the true risks affordable mortgage loans originated through state HFA programs pose and the myriad ways they manage and oversee their loan performance and third-party lender partners. Otherwise, FHFA would needlessly raise the costs of homeownership for those who most need affordable mortgage finance: first-time and lower income homebuyers.

4. FHFA's methodology for estimating how much capital the Enterprises need for single-family exposures results in unnecessarily high regulatory capital requirements.

FHFA did not exclude from its analysis of single-family mortgage loan products that the Enterprises do not purchase today (nor would FHFA likely approve), such as Alt-A, Interest-only ARMs, and Option ARMs. FHFA should have backed out losses stemming from those mortgage types from its calculations of how much capital would have been needed to withstand the events of 2008. Its failure to do so overstates its estimated capital requirements.

Additionally, FHFA included losses due to deferred tax assets in its calculations, but those losses are not connected to the credit risk of single-family mortgage exposures and should be excluded from its calculations. While the Enterprises did experience losses due to deferred tax assets, which they had to write off because they did not have tax liabilities that equaled pre-paid taxes, this loss does not relate to historical loan performance. By including deferred tax assets in its calculations, FHFA's extrapolation of what the Enterprises would need in credit capital to withstand losses from the Subprime Crisis overstates what they would need for their current book of business, resulting in unnecessarily higher guarantee fees and higher cost mortgages.

FHFA should update its capital needs modeling to more accurately reflect current loan product types and exclude deferred tax asset losses.

5. The proposed Framework will reduce affordable rental housing development.

NCSHA is especially concerned the proposed Framework for multifamily mortgage exposures does not recognize how affordable multifamily transactions are typically structured, nor does it account for the characteristics of affordable multifamily developments commonly used to mitigate a lender's risk. As a result, the proposed risk multipliers will require the Enterprises to hold more regulatory capital than the amount which truly reflects the associated risks.

<u>Subsidies</u>. FHFA's proposed Framework ignores the important and beneficial role additional subsidies play in affordable multifamily transactions. Subsidies not only enable owners to offer units at lower rents more affordable to people of lower income than they otherwise would be able to offer, significant

amounts of subsidy also provide very strong risk mitigation to lenders of affordable rental properties because they reduce the loan-to-cost and loan-to-value ratios. Some forms of subsidies, such as project-based rental assistance, provide rental payment certainty and increase operating income, thereby reducing risk.

Supplemental Tenant Services. Many nonprofit affordable rental property owners provide or facilitate the provision by others of a variety of social services to tenants, including job placement, benefit application assistance (e.g., unemployment, social security), and mental health services. Such services are particularly important for persons who previously experienced homelessness. Supplemental tenant services mitigate loan repayment risk because providing a social safety net or other supportive services to tenants helps lower rent payment delinquencies and turnover rates.

Low Income Housing Tax Credit (Housing Credit). Multifamily transactions receiving Housing Credits are especially strong credits because investors are highly motivated to make sure the mortgage is paid on time to avoid tax recapture. Additionally, the amount of equity raised through the sale of Housing Credits represents a significant amount of total development cost, lowering the LTV on the loan. The Housing Credit plays a pivotal role in the development of affordable rental housing: over the period of 1987-2018, state allocating agencies have allocated more than $18 billion in Housing Credits to help produce more than 2 million qualified units, so the failure of the Framework to recognize the value of Housing Credit equity is a major oversight.

Real Property Tax Exemptions. When a government taxing agency provides an exemption from real property taxes to an affordable housing development, it is demonstrating its public commitment to the transaction through its investment of public resources. Transactions with this demonstrable public support also pose less risk than a typical market-rate multifamily transaction because operating costs are lower.

Below-market financing via Tax-Exempt Bonds. The below-market interest rates of tax-exempt bonds state HFAs issue to finance affordable multifamily development enable building owners to lower rents by reducing monthly debt service and operating costs.

Energy Retrofits. FHFA's proposed rule does not provide any risk mitigation benefit for energy-retrofitted multifamily properties. These properties are more creditworthy because energy-saving retrofits lower a building's operating costs generally and—where individual units are sub-metered—lower the monthly utility costs to tenants, increasing their ability to pay rent on-time.

Income Diversification. Mixed-use buildings provide income diversification to building owners and are common in many suburban and urban areas. Ground floor retail may not only make the development more desirable to tenants who may consider proximity to restaurants, a grocery store, pharmacy, or services (e.g. dry cleaning) to be a building amenity and reduce tenant turn-over, but it also diversifies the income streams to the building owner. FHFA's Framework does not provide any risk mitigation benefit for mixed-use buildings but should.

FHFA should lower the risk adjustments for affordable rental properties that use additional subsidies, supplemental tenant services, Housing Credit- and tax-exempt bond-financing, property tax abatement, energy retrofits, or income diversification. Failure to do so will mean affordable rental housing development will be more expensive, driving up rents, reducing total production, and increasing the amount of debt, equity, or subsidies sponsors will have to raise.

FHFA's approach also will make it more expensive for the owners of smaller, older multifamily properties to finance the rehabilitation of their properties. These properties are common in and important to smaller cities and towns, older downtown areas, and rural communities. Because they contain fewer units, small multifamily buildings require less debt per unit, leading to smaller loans. They also may require less debt because they have received subsidies. Yet FHFA's risk multiplier for loans of less than $2 million is 1.45, which will cause the risk weighting for small multifamily loans to rise by almost 50 percent due to this factor alone.

FHFA should re-examine the risk weighting for small multifamily loans – perhaps in conjunction with any of the above-mentioned characteristics common to affordable rental properties – so as to more accurately reflect the risks posed by affordable small multifamily properties.

6. The proposed Framework's rigidity will stifle product innovation.

The Enterprises' special role in the American housing finance system will diminish and stagnate if they cannot innovate. Mortgage finance tools and procedures change constantly, so innovation is the key to serving and leading the markets. Post-conservatorship, investors who weigh whether to invest in an Enterprise or another company are sure to consider an Enterprise's ability to stay competitive when making their investment decisions.

The proposed Framework for both single-family or multifamily loan exposures does not contain any mechanism for an Enterprise to seek FHFA's approval for any other risk-mitigating loan characteristics or other structures their partners, including state HFAs, might develop in the future. Indeed, the Enterprises do not currently recognize the aforementioned MIPlus program's benefits but should consider doing so. FHFA's Framework would not allow for a reduction in credit capital when such characteristics are in effect, nor is there a way to recognize and apply additional research that might be even more conclusive on risk mitigation.

FHFA should make its final Framework flexible enough to adapt to an evolving market where new ideas are likely to emerge and should be valued and encouraged. Or, in the alternative, FHFA needs to provide for a way to approve innovative risk mitigants in a timely manner. Without such flexibility or approval mechanisms, the Enterprises' partners, including state HFAs, will not be incented to innovate because loan characteristics that do not fit FHFA's mold will not receive favorable credit risk capital allocations, even if they mitigate risk. This will stymie new product development and the continued evolution of affordable mortgage financing.

In Conclusion

As state HFAs seek to reverse the downward trend of minority homeownership, ensure safe and sustainable housing options for all citizens during the global COVID-19 pandemic, and address local affordable housing needs generally, they need Fannie Mae and Freddie Mac to offer robust, affordable, and innovative products. NCSHA urges FHFA to make the necessary changes we have described above to ensure the Enterprises will be able to do so.

NCSHA appreciates the opportunity to provide comments on FHFA's proposed Framework and would welcome the opportunity to provide clarifications or additional information to FHFA as it works to finalize the Framework, including during any listening sessions or public hearings it may schedule to consider public comments.

Sincerely,

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives