



# *GSE Activity Report*

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Monday, January 4, 2021

## *Really Affordable Housing?*

### Summary

It's not exactly news to suggest that the Biden Administration will take a more demanding view of the GSEs' affordable-housing obligations than the Trump Administration. What's more intriguing is how FHFA is setting the wheels in motion for new policy without anyone having to tell it to do so via an [advance notice of proposed rulemaking](#). While a few of its questions may provoke Democratic ire, most are direct responses to longstanding advocacy-group complaints about current goals. Based on comments, FHFA's benchmark GSE single- and multi-family goals could change markedly for 2022 and the basic goal construct could also come in for significant overhaul. Even if FHFA doesn't go that far, comments on the ANPR lay the platform for Administration action with far-reaching implications not just for the GSEs, but more broadly for U.S. housing finance.

### Impact

This ANPR follows several FHFA actions making it amply clear that Director Calabria well understands that what we've been calling the "[racial-equity era of consumer finance](#)" is upon us. On [Monday](#), the agency expanded its long-planned inquiry into appraisal practices to look also at neighborhood racial and ethnic differences and what is needed to be done about them. Even going back to 2019, FHFA and the Treasury Department rejected longstanding Republican complaints about GSE affordable-housing goals. In their [2019 plan](#), the agencies argued for affordable-housing reconfiguration, not rejection by rule or even law.

The affordable-housing ANPR follows this lead, but goes farther with several specific lines of inquiry:

- FHFA wants to know if some loan products, features, or underwriting criteria should be considered off-limits for affordable-housing credit. Current rules bar credit for some products (e.g., investor loans), but FHFA is considering providing goal credit only for underwriting that ensures sustainable home ownership, asking how best to do so and what public-policy objectives should be considered. A footnote in the ANPR suggests that high-risk features that might bar a loan include high DTIs, high LTVs, or low credit scores, with the agency also seeking comment on ways to determine products that advance sustainable home ownership and then limit goals credit only to such products. We expect high-LTV loans to come in for special scrutiny given FHFA's efforts to transfer much of this business back to FHA.
- Views are also sought on the extent to which current standards contribute to gentrification, looking in particular at modifications to the low-income and minority area home-purchase goals adding income criteria. The Fed is looking at similar issues in its pending [CRA rewrite](#), with FHFA pointedly noting now that GSE purchases in low-income areas are considerably

higher than those in minority census tracts and that each include loans to higher-income borrowers disproportionate to their percentages in relevant census tracts. The agency also notes that neighborhoods shifting from rental to owned homes are prone to gentrification but does not even imply what might then be done about it.

- FHFA also seeks views on whether the GSEs' goals have in fact increased affordable housing and, if not, then why not and what to do about it. The agency is, for example, pondering counter-factuals to see how much affordable housing there would have been without GSE affordable-housing goals. This could be read as FHFA laying pipe for an end to affordable-housing goals, but the overall context of the ANPR suggests instead that FHFA is looking for ways to make the goals more meaningful.

What's missing from this inquiry? GSE pricing. As previously noted, Fannie and Freddie LLPAs have recently come in for extensive [criticism](#) on grounds that they disproportionately affect minority borrowers; we continue to expect the Biden Administration to assess this issue with regard not only to the GSEs, but also more broadly with an eye to consumer-finance risk-based pricing differences that appear to create disparate treatment. Pressure will also grow on the GSEs to offer new mortgage products (e.g., low-balance loans, ARMs with low rate ceilings) targeted at minority borrowers. FHFA's inquiry could lead to considerable public comment supporting these options, but FHFA evinces no immediate, clear interest in them beyond the heavy hints – see above – about sustainable home ownership.

## Outlook

Comments are due by February 28. FHFA then plans to issue a regulatory proposal establishing new goal benchmarks and perhaps also otherwise rewriting the affordable-housing rules.