GSE Activity Report

Wednesday, September 8, 2021

Affordability + Equity = New GSE Mission

Summary

As Karen Petrou's Monday memo forecast, FHFA is doubling down on an already-ambitious work plan to make Fannie and Freddie the epitome of mortgage-finance equity. Combined with planned changes to the GSEs' affordable-housing goals, the new equitable-mortgage mission fundamentally redefines Fannie and Freddie into agents of the public good, a mission they will find hard to master if they ever hope to climb out of conservatorship. And, of course, changing the GSEs changes the market. FHFA's new vision entails not only what GSEs can do for the public good, but also how they can use their market clout to make everyone else do it too.

Impact

FHFA says that these new plans are meant to enhance "public awareness." This they'll surely do, but we do not hesitate to say that they'll also do a good deal more. Data FHFA released today show differences in Fannie/Freddie Black and Hispanic AU approvals versus the rest of the market when compared to whites, with other numbers also showing disparities sure to be politically problematic even if at least some of them are due to the differences between GSE and FHA. Freddie is often behind Fannie and the market, putting it under a still bigger public-good gun.

Buttressed by at least some of these data, FHFA says that the GSEs' goals are nothing less than ending racial/ethnic-ownership gap and correcting for past redlining and market inequity. Among the ways the GSEs are told to do so are:

- reducing DDRs resulting from GSE automated underwriting;
- reducing disparities between purchased loans and the market as a whole;
- reducing disparities in servicing, loan mods, and loss mitigation;
- tracking disparities in tenant screening and other rental processes;
- improving affordable housing in minority and high-poverty communities;
- increasing affordable housing, with FHFA now focusing on families and generally stipulating that these efforts must be in areas with educational, transportation, and other facilities;
- doing the same for persons with disabilities in the most integrated settings possible;
- addressing under-valuation (e.g., appraisal discrimination) and under-investment in communities once subject to redlining;

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- expanding sustainable housing (e.g., by helping to make minority borrowers credit worthy), focusing on rentals; and
- promoting fair lending across the entire housing-finance sector. For example, the GSEs could promote or even require a range of actions by all of their counterparties.

In addition, the GSEs are to set each of these goals and perhaps some others in measurable ways, a requirement likely to prove challenging given the qualitative nature of several goals. This may well lead the GSEs to measure themselves by industry and market indicators, using their power to set standards where they can to quantify the progress they can say they made. The questions also suggest a considerable credibility gap, with FHFA also seeking comment on how best to determine if what Fannie and Freddie have done is measurable and if their goals are suitable. Interestingly, FHFA also asks about the need for special-purpose credit programs. We have long expected more of these in areas such as small-dollar loans and HLTV products. Comment is sure to flow.

Outlook

Importantly, FHFA hasn't decided yet what to do with these plans, seeking comment on whether ranking the GSEs suffices or if something else -- presumably more punitive -- is required.

Despite these framework-bending questions, FHFA is wasting no time breaking this news to the GSEs. Comments are due by October 25 and FHFA then will quick-read them in order to give the GSEs the direction needed to file their first plans by the December 31 deadline laid out in the RFI.

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