GSE Activity Report

Thursday, June 9, 2022

Equitable Endeavors

Summary

When Sandra Thompson earlier this year enunciated a new equitable-finance mission, we forecast that Fannie and Freddie would undertake an array of new activities that significantly expand their footprint along with their equity and equality impact. As anticipated, the plans announced yesterday by Fannie and Freddie go beyond FHFA's reiterated mission statement earlier this week, mirroring in some ways the banking agencies' broad view of CRA as a community-development and racial-equity instrument as well as the boost to LMI housing on which attention long focused. But, for all the public-good creds these plans engender, several will doubtless promote market angst as the GSEs launch pilots that tread heavily on MI, title-insurer, and servicer toes.

Impact

Fannie's press release reflects its longstanding political sensibilities, emphasizing a strong focus on expanding Black homeownership and rental opportunities to redress decades of redlining and advance racial justice. Freddie's release speaks more broadly of all under-served communities, which Fannie also mentions, with both GSEs also addressing the financial-literacy and community-development activities FHFA highlighted in its announcement. Much here may make a meaningful difference in communities hurting even more badly in the wake of the pandemic and, now, inflation's regressive price tag for lower-income households.

Where the market impact comes most immediately is via FHFA's implicit greenlight for new special-purpose credit (SPC) programs that, while making these pilot and ventures public, may nonetheless lead the GSEs into areas banks, MIs, and other private entities think well served without benefit of an implicit guarantee.

For example, one of Fannie's pilots would expand an existing program to borrowers with more than 80% of median income in targeted areas, in part by requiring lower MI coverage percentages and premiums and/or lower LLPAs, testing whether it's MI or LLPAs that deter home ownership and refinancing. The pilot will also allow for greater income recognition (e.g., for boarders).

Fannie will also test allowing broader third-party down payment assistance, noting that some of this might come from Fannie itself or even Mis, as well as lenders, HFAs, or government sources. Fannie is also planning to enhance its SPC programs by developing mortgage-reserve, home-warranty, or flood insurance add-ons. Who would provide these add-ons is not made clear.

Fannie is also developing new climate-risk data tools for underserved communities along with a closing-cost calculator to bring transparency to this critical component, transparency some in the mortgage-origination arena may well regard with the same concern prior calculators engendered.

Freddie's special-purpose credit programs are often less clearly stated, but the GSE is committing to

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buy SPC organizations for Black, Latino, Native American, and borrowers in majority-minority tracts. However, Freddie also has its eyes fixed on MI. The plan for the first time provides statistics on disparate MI pricing for Black versus white households and brings MI onto the target range now largely occupied by appraisers. The equitable-finance plan says that Freddie will work with MIs and "industry partners" to end disparate pricing for MI, also laying out a case for exploring title-insurance costs without the same, high-profile statistics laid out for MI.

Freddie also mentions designing its own SPC to offer down payment assistance, reduced pricing or fees, expanded underwriting, reserve accounts, "sustainable bonds," and/or new servicing protocols. It is also considering a new program of automatic payment deferrals allowing some borrowers to skip payments under defined conditions, laying out an array of decisions it has yet to take before launching these projects and looking also at assisting first-generation buyers. Freddie's statement robustly defends LLPAs, but the GSE is nonetheless considering new pricing initiatives (e.g., realtor commissions, closing costs) to meet the need for low-balance loans in under-served communities depending on the extent to which this proves permissible.

Outlook

FHFA has created a new "pilot transparency framework" designed to provide accountability for the extent to which the GSEs' pilots meet specified goals. FHFA plans to oversee these pilots to assess risks, but it's unclear if transparency includes the kind of prior notice and comment Calabria instituted for new programs nor if aggrieved parties will have an opportunity to contest aspects of these pilots and especially the SPCs they may believe go beyond current law or the GSEs' mission. It seems likely that this FHFA will side with community advocates, not those in the industry, but this process will play out as each GSE moves through each phase of the three-year action plans laid out in their new statements.

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