Testimony of David Sanchez, National Community Stabilization Trust
Federal Housing Finance Agency Listening Session
Closing the Gap to Sustainable Homeownership
June 29, 2021

Thank you for the opportunity to speak today. My name is David Sanchez and I'm the Director of Research and Development at the National Community Stabilization Trust, a national non-profit that supports families and communities by restoring distressed single-family homes, strengthening neighborhoods, and increasing sustainable, affordable homeownership. We do this by facilitating sales of distressed homes to community-based partners, providing technical assistance and capital for single-family rehab, and conducting federal policy advocacy grounded in our knowledge of distressed housing markets.

Before I begin, I would be remiss if I did not congratulate Acting Director Thompson, who I know has the knowledge, leadership skills, and courage necessary to lead FHFA. Today's topic of closing the gap to sustainable homeownership is a critical one, and it is one where FHFA and the GSEs have a tremendous ability to lead – if they choose to. We hope today's listening session is a first step towards a much greater emphasis on questions of access and affordability at FHFA and both GSEs.

Today, I will make seven recommendations that would help close the gap to sustainable homeownership. My first three recommendations discuss ways that the GSEs can increase the supply of affordable homes – a topic that must be central to any discussion of sustainable homeownership today. The remaining recommendations touch on loss mitigation, credit policy, and the GSEs' affordable housing obligations.

First, we urge FHFA to remember the importance of property disposition policies and programs to the supply of affordable homes and to stability of communities. Under FHFA's Neighborhood Stabilization Initiative, each GSE makes REO properties available to community-based non-profits and others for an exclusive purchase opportunity, or "first look." NCST is grateful for Freddie Mac's partnership in implementing this program. Fannie Mae sells REO properties through its Community First platform, and we urge FHFA to closely monitor the effectiveness of Fannie Mae's policies and practices. Additionally, given the extreme shortage in affordable inventory for homeownership, we urge to FHFA to reconsider the GSEs' note sales programs to ensure that these properties backing these loans continue to be available for owner-occupancy.

Second, we urge FHFA to allow the Enterprises to make equity or equity-like investments that support their affordable housing mission. This could include not only investments in high capacity CDFIs – as discussed by my colleague Kris Siglin – but also in particular transactions that support the production or preservation of affordable housing. Such investments would meet a clearly documented shortage of equity capital that supports these activities. While certain limits on the GSEs' investment authorities may be prudent, we encourage FHFA to be transparent about any limitations it places on these activities.

Third, we recommend that both GSEs consider new initiatives to purchase construction-to-permanent mortgages, both for single-family and multifamily properties. Purchasing these loans on competitive terms is one clear way that the Enterprises can directly increase the supply of new homes.

Fourth, we encourage FHFA and the GSEs to ensure that their loss mitigation programs are as effective as possible in preventing unnecessary foreclosures. One critical step is allowing all borrowers to be eligible for interest rate reductions as part of a Flex Modification, including those that have significant equity in their properties. In addition, the GSEs should allow escrow shortages to be deferred through payment deferrals and to be included in Flex Mods. The CFPB's mortgage servicing rule released just yesterday clarified that this was permissible under RESPA.

Fifth, we encourage FHFA and the GSEs to offer a true streamlined refinance program for low-wealth borrowers. If the obstacle to such a program is the expiration of the GSE Patch tomorrow, we urge FHFA to extend the patch for this purpose until that authority expires next October under CFPB rules.

Sixth, we encourage FHFA to reduce or eliminate loan level pricing adjustments or LLPAs, which charge additional fees to lower-wealth borrowers and those with less than pristine credit. These fees not only drive up the cost of homeownership for these borrowers, who are disproportionately borrowers of color, but also directly limit the GSEs' ability to serve these borrowers by making GSE financing less attractive than FHA-backed mortgages. FHFA should also reconsider its Adverse Market Refinance Fee and the unnecessarily large capital buffers in its 2020 capital rule, both of which unnecessarily increase the cost of credit.

Seventh, we encourage FHFA to consider how to incorporate racial equity into the Duty to Serve program and the affordable housing goals. In the case of Duty to Serve, while the existing rule's extra credit for Residential Economic Diversity was well-intentioned, it is clear that more must be done to incent the Enterprises to equitably serve households and communities of color. Additionally, federal law includes a provision whereby the FHFA Director may recommend to Congress additional underserved markets to which DTS should apply, which could be one way to incorporate racial equity. In the case of the goals, FHFA should consider whether to create subgoals based on race or ethnicity, since the geographically based goals regime does not seem to be producing the results it should.

Thank you again for the opportunity to speak today, and please don't hesitate to reach out to discuss these recommendations further.