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Thank you for the opportunity to share comments in response to the final Federal Housing Finance Agency (FHFA) on the 2022-2024 Underserved Market Plans for Fannie Mae and Freddie Mac.

HOPE (Hope Credit Union / Hope Enterprise Corporation/Hope Policy Institute) is a Black- and women owned Community Development Financial Institution (CDFI) credit union, a CDFI loan fund, and a policy and advocacy organization. HOPE serves Alabama, Arkansas, Louisiana, Mississippi and Tennessee – a region that is home to over a third of the nation’s persistent poverty counties, most of which are rural. HOPE was established to ensure that all people regardless of where they live, their gender, race or place of birth have the opportunity to support their families and realize the American Dream. Since 1994, HOPE has generated over \$3.6 billion in financing and related services for the unbanked and underbanked, homeowners, entrepreneurs and small business owners, nonprofit organizations, health care providers and other community and economic development purposes. Collectively, these projects have benefited more than 2 million individuals throughout the Deep South.

Sixty-nine percent (69%) of HOPE members have household incomes below \$45,000 and eight out of 10 members are people of color. Our branches are located in areas often left behind from other types of investment, with 86% in counties where the majority of the residents are Black. One-third of our branches are located in counties that have been in deep poverty for more than three decades, and three branches are in small Delta towns with no other depository institution. Over the last 20 years, HOPE has originated over 3,300 mortgages totaling \$285 million. HOPE’s mortgage lending is designed to not only provide affordable home purchase financing, but also to close the racial wealth gap.

The effects of the racial wealth gap are perhaps most acute in the Deep South region where nearly 2 out of 5 residents are Black, in Mississippi, and 1 out of 3 in Louisiana. In Mississippi and Louisiana:

- For every dollar of income earned by white households, Black Households earn between \$0.50 and \$0.55¹
- Approximately, 7 out of 10 Black households do not have the liquid assets available to cover three months of expenses²;
- In Mississippi the net worth of Black households is \$15,900 – in contrast to over \$100,000 for white households.³

The racial wealth gap is also evident in looking at homeownership rates. In the Deep South, there is more than a 25% gap between Black and white homeownership⁴. This gap has widened between 2009 and 2019, with Mississippi and Tennessee experiencing a seven percentage point increase

during this time.⁵ Mississippi's Black homeownership rate has steadily fallen every year in the decade since to its lowest point in 14 years.⁶ As just one reason why, in Mississippi, Black borrowers earning over \$150,000 experience a denial rate (34%) that is higher than for white borrowers earning between \$31,000 and \$50,000 (21%).⁷

The scale of the wealth gap is an indicator of the scale of the resources still needed to close it. The benefits of doing so are also enormous. HOPE estimates that simply bringing the Black homeownership rate on par with white homeownership rates of 73.7%, would create an additional half a million Black homeowners in the Deep South. A recent McKinsey study found that closing the racial wealth gap could increase US gross domestic product (GDP) between \$1 and \$1.5 trillion by 2028.

Homeownership, is a key way that families can build wealth⁸, and a critical strategy to closing the gap. Thus, the Government Sponsored Enterprises (GSE), with their work in housing finance in underserved markets can play a crucial role in closing the gap as well. The 2022-2024 Underserved Market plans of Fannie Mae and Freddie Mac lay out some promising strategies in affordable housing preservation and rural housing.

HOPE's comments on the Underserved Market plans focus on two main areas of opportunity:

- Investing in Mortgage Lending by Community Development Financial Institutions
- LIHTC Equity Investments

Each recommendation is grounded in the lessons learned from making performing mortgages in the Deep South region over two decades – largely to people of color and most of which would never garner a second look from a Government Sponsored Enterprise (GSE) because of the perceived risk and eligibility criteria that remains far too narrow.

Investing in Mortgage Lending by Community Development Financial Institutions

While banks and other large financial institutions have a role in closing the homeownership and the racial wealth gap, sustained and targeted investment in CDFIs with demonstrated a commitment to serving rural communities and people of color is a proven solution for setting the nation on a path toward inclusive economic prosperity.

The Underserved Market plans of both Fannie Mae and Freddie Mac include initiatives to research and expand their work with CDFIs. Freddie Mac's plan includes developing "product flexibilities to help community development financial institutions (CDFIs) increase originations of conventional mortgages."

As a CDFI in the Deep South, HOPE fills mortgage lending gaps through products and practices designed specifically to mitigate the challenges facing low-wealth borrowers and communities, and to close the racial wealth gap. This approach includes manually underwriting loans, considering nontraditional indicators of credit repayment history, and discounting medical debt and deferred student debt. In addition, we offer a 100% loan-to-value product, as many low-wage earners have the cash flow for a monthly mortgage payment, but lack the ability to save for a down payment. HOPE's current mortgage portfolio is majority people of color, primarily Black borrowers. In 2021, 90% of HOPE's mortgage loans went to minority borrowers and 87% were to first time homebuyers. Notably, the portfolio performs well over time, with a charge off rate of less than 10 basis points.

Product Expansion

Over the last five years, HOPE has closed 1041 mortgages for \$130 million. Of those mortgages, 78% by number and 76% by dollar were mortgages originated through HOPE's Affordable Housing Program (AHP). The AHP is one of the single most effective tools available to HOPE to build wealth in the Black community. Of the 749 AHP mortgages originated from 2017-2022:

- 80% were to Black borrowers;
- 58% were to women headed households;
- 85% were to first time homebuyers.

The program's impact is deep because it addresses many of the structural impediments created by the mortgage market:

- Borrowers may finance up to 100% of the value of the home (100% LTV);
- Credit Scores as low as 580 are considered;
- Non Traditional sources of repayment history are eligible for underwriting;
- No mortgage insurance is required.

The success of this product is reinforced by low charge off rates. Over the last five years, the annual net charge off rate has never gotten higher than 67 basis points.

Despite the product's impact and performance – there was one other consistent feature. Neither Fannie Mae nor Freddie Mac will purchase HOPE Affordable Housing Product Loans. While this matters for HOPE and could have played a role in expanding the organization's ability to serve more households – it matters most because there is no single more powerful engine in the American economy to close the Black / white homeownership gap than the GSEs. So long as Fannie Mae and Freddie Mac are systemically overlooking the purchase of mortgages to Black households, relegating originations like the ones described above to the community development sector, then regardless of whether or not Duty to Serve benchmarks are met, FHFA and the GSEs are simply preserving gaps and supporting the status quo.

Beyond Duty to Serve – the GSE purchases of mortgages made to Black households hovers around 4 percent annually – below the total originations to Black households nationwide and well below levels needed to close the gaps.^{9 10 11} Efforts must be taken across the GSE system to meaningfully improve the level of lending to Black households supported.

Down Payment Assistance

Given the low levels of income and assets in Black households and due to a history of exclusionary and discriminatory policies, the presence or absence of down payment assistance is often the difference between becoming a first time homebuyer – or not.

Notably, the Fannie Mae and Freddie Mac Duty to Serve final plans do not include the deployment of a Down Payment Assistance initiative to expand homeownership. In order to realize significant gains in homeownership, a robust down payment assistance initiative should be rolled out in every High Needs Region including Appalachia, the Lower Mississippi Delta, U.S. / Mexico border and in Native communities.

Down Payment Assistance expands homeownership in rural communities. Between 2019 and 2020, through a NeighborWorks funded down payment assistance program conducted in partnership with Wells Fargo and several other local banks, HOPE provided down payment assistance grants of up to \$10,000 to 257 Mississippians, a quarter of which were in rural communities. Of the 63 loans directly originated by HOPE through the program:

- 90% were to Black households;
- 63% were Women headed households;
- All but one borrower assisted was a first time homebuyer;
- The median purchase price was \$81,000.

Any GSE down payment assistance program crafted must compliment a 100% LTV product. In our experience, borrowers with credit histories to qualify for a mortgage are frequently hampered by the lack of assets that would facilitate having the ability to make a down payment and cover closing costs.

As one example, one of HOPE's members, who participated in the Down Payment Assistance Program described above, had a solid credit history and stable employment. However, due to a divorce, the borrower neither had the resources needed for a down payment nor the savings to cover the mortgage closing costs. Fortunately, HOPE has a portfolio product that allows a borrower to finance up to 100% of the loan to value of the mortgage. With this product, combined with flexible down payment assistance to cover closing costs, the borrower was able to move from an applicant to a homeowner.

The borrower's story, combined with the sobering statistics on the racial wealth gap underscore the critical importance of the GSE's standing up and committing to the ongoing funding and management of a down payment assistance program in Duty to Serve Regions.

CDFI Capitalization

The region remains plagued by historic and systemic racism in our financial system. Two statistics illustrate this point:

In Mississippi, in 2019, Black borrowers earning over \$150,000 experienced a denial rate (34%) that was higher than the denial rate for white borrowers earning between \$31,000 and \$50,000 at 28%; [\[7\]](#)

Disparities exist even among CDFI Banks:

Among the 27 CDFI banks headquartered and engaged in mortgage lending in Mississippi from 2018-2020, 68% of mortgage loans went to white borrowers while only 13% went to Black borrowers. This is lower than the statewide rate of all HMDA reported mortgage originations from 2018-2020 to Black borrowers at 17%.¹²

In light of these disparities, simply creating a channel to buy mortgages that address the challenges of the wealth gap does not go far enough. The Duty to Serve plans should also include provisions to provide capital and operating support to minority serving CDFIs – CDFIs led by people of color and/or with long track records of providing mortgages to households of color at significant and meaningful levels – well beyond existing lending rates among mortgage originators in the Deep South.

The ability to make this happen rests on the authority and willingness of FHFA to bring this recommendation to fruition. Over the last several years, staff from multiple CDFIs met numerous times with Duty to Serve leaders from both Fannie Mae and Freddie Mac. On every occasion, GSE Duty to

Serve leaders delivered the same response “the FHFA Office of General Counsel has said that is not allowed.”

Fannie Mae’s plan outlines a goal to “explore feasibility of investing in one or more CDFIs to provide improved access to affordable mortgage lending to consumers in high-needs rural regions.”¹³ While plans for research and legal and regulatory review are necessary, HOPE encourages a rapid implementation timeline for deploying investments in at least 3-5 CDFIs.

FHFA must empower a more proactive response by the GSEs to reach the people and the regions facing the highest hurdles to homeownership.

LIHTC Equity Investments with Developers of Color

Both Fannie Mae and Freddie Mac include a goal of making LIHTC equity investments in rural areas. Freddie Mac plans to finance 21 LIHTC transactions from 2022-2024 and Fannie Mae plans to finance a 218 properties over those three years. Freddie Mac expressed

Our investments will not only provide a meaningful benefit to the people living in rural markets by providing them with safe, decent and affordable housing that is hard to come by — we will also further competition into a segment of the market that lacks it, and often lacks investor interest at all. By doing so, we could potentially influence the price per credit, which could make the development of properties viable where they were not previously or allow developers to create or preserve more units than they would otherwise.”¹⁴

Financing LIHTC projects in rural communities is critical to supplying housing for populations that have historically faced challenges in accessing affordable, quality housing. In addition to targeting rural housing and LIHTC projects, Freddie Mac and Fannie Mae should commit to partnering with developers of color for at least half of their LIHTC transactions.

Developers of color are infrequently awarded LIHTC credits. For example, in 2021 only 11 of the 25 LIHTC applicants received credits in Mississippi, and none of them were a developer of color. Furthermore, only one developer of color applied. The LIHTC award process advantages developers that have received prior credits and developers with deep relationships with financial institutions. Mainstream financial institutions have long overlooked communities and color so many Black developers lack access to critical financial supports in project proposals for the LIHTCs. Where applicable, GSEs should encourage and institutionalize the participation and meaningful funding of black developers through its role in the affordable housing production process.

Again, thank you for the opportunity to comment on the 2022-2024 Underserved Market Plans. Should you have any questions, please do not hesitate to contact me at sara.miller@hopecu.org.

Sincerely,



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¹ Kent, Ana Hernandez. Examining U.S. Racial Inequality by State. Federal Reserve Bank of Saint Louis. August 17, 2020. <https://www.stlouisfed.org/publications/bridges/volume-3-2020/examining-us-economic-racial-inequality-by-state>. Accessed 7/16/2021

² Prosperity Now Scorecard Mississippi: Outcome Financial Assets & Income; Liquid Asset Poverty Rate. <https://scorecard.prosperitynow.org/data-by-location#state/ms>. Accessed 7/16/2021.

³ Prosperity Now Scorecard Mississippi: Outcome Net Worth. <https://scorecard.prosperitynow.org/data-by-location#state/ms>. Accessed 7/16/2021.

⁴ Calandra Davis, "Shifting The Narrative: How Homeowners and Renters of Color are Navigating Arkansas's Housing Crisis," Nov. 21, 2021, <http://hopepolicy.org/reports/shifting-the-narrative-how-homeowners-and-renters-of-color-are-navigating-arkansas-housing-crisis/>

⁵ Id.

⁶ Calandra Davis and Ed Sivak, Testimony before Mississippi Senate Housing Committee, Nov. 13, 2020, <http://hopepolicy.org/presentations/mississippi-senate-housing-committee-testimony/>

⁷ Hope Policy Institute Analysis of Home Mortgage Disclosure Act 2019 denial and origination data accessed at <https://ffiec.cfpb.gov/data-browser/data/2019?category=states>

⁸ Laurie S. Goodman and Christopher Mayer, "Homeownership and the American Dream" Journal of Economic Perspectives Volume 32, Number 1, Winter 2018 available at

https://www.urban.org/sites/default/files/publication/96221/homeownership_and_the_american_dream_0.pdf

⁹ FHFA Fannie Mae 2021 "Annual Housing Activities Report & Annual Mortgage Report"

<https://www.fanniemae.com/media/43111/display> accessed August 2022

¹⁰ FHFA "2021 Annual Housing Report," <https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Annual-Housing-Report-2021.pdf> accessed August 2022

¹¹ Consumer Finance Protection Bureau "Data Point: 2020 Mortgage Market Activity and Trends"

https://files.consumerfinance.gov/f/documents/cfpb_2020-mortgage-market-activity-trends_report_2021-08.pdf

¹² Hope Policy Institute Analysis of Home Mortgage Disclosure Act data from 2018-2020

¹³ Fannie Mae, "Duty to Serve Underserved Markets Plan 2022-2024" April 2022 available at

<https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FannieMae2022-24DTSPan-April2022.pdf>

¹⁴ Freddie Mac, Freddie Mac "Duty to Serve Underserved Markets Plan 2022-2024" April 2022 available at

<https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FreddieMac2022-24DTSPan-April2022.pdf>