

June 29, 2004

Regulation Division
Office of General Counsel
Department of Housing and Urban Development
451 Seventh Street, S.W., Room 10276
Washington, DC 20410

Re: **Docket No. FR-4709-P-01**
HUD's Proposed Housing Goals for Fannie Mae and Freddie Mac, 2005-2008

To Whom It May Concern:

I am writing from Woodstock Institute in Chicago to comment on the proposed housing goals for Fannie Mae and Freddie Mac covering years 2005 to 2008. Woodstock Institute is a Chicago-based research and policy organization that for over 30 years has worked locally and nationally to promote access to affordable housing finance in lower-income and minority communities. Woodstock also convenes the Chicago CRA Coalition, a group of nearly 100 area organizations with an interest in promoting reinvestment in underserved communities.

The Government Sponsored Enterprise (GSE) housing goals proposed by HUD for 2005 to 2008 are set at a level that should challenge Fannie Mae and Freddie Mac to lead the market in financing single-family mortgages, particularly home purchase loans, to lower-income borrowers and underserved areas. However, we feel that the challenges particular to increasing homeownership among minorities, fighting predatory refinance lending, and improving access to financing for affordable multi-family rental housing in special affordable communities necessitate stronger goals in these areas.

The proposed housing goals and home purchase subgoals do not specify strong goals for lending to minorities. HUD notes significant evidence that the GSEs have lagged other financial institutions in serving minority borrowers, particularly first-time homebuyers, and HUD's notice states that the purpose of the home purchase subgoals is to "help address the racial and income disparities in homeownership that exist today." However, despite this stated desire, the proposed goals specific to minorities are quite limited. In fact, the only mention of minority status in the goals is including middle class communities (up to 120 percent of median-income) that are greater than 30 percent minority as "underserved."

While we believe that it is important to target and promote racially and ethnically diverse middle class communities, there has been a well documented lack of access to prime mortgage credit in predominantly minority communities. Research has shown that even

after controlling for a variety of factors related to borrower and neighborhood risk, minority communities are disproportionately likely to receive higher-cost subprime loans.¹ This highly concentrated subprime lending has significantly contributed to a historic rise in foreclosures in minority neighborhoods in recent years.² We believe these conditions necessitate creating housing goals and subgoals specific to highly minority communities and minority borrowers that encourage increased levels of affordable mortgage lending. Without such goals, disparities in lending and homeownership rates between minorities and whites will not be adequately addressed.

In conjunction with specific goals for minorities, we feel HUD needs to use the housing goals to improve access to affordable and responsible refinance loans for borrowers and communities targeted by predatory lenders. Through their voluntary best practices and previous HUD rulemaking, the GSEs currently have in place safeguards that prevent them from purchasing loans with certain abusive terms. Additionally, as stated by HUD, the GSEs have the ability to expand their underwriting to allow the purchase of more loans to borrowers with impaired or limited credit while not significantly increasing the risk in their portfolio. If abusive refinance loans are to be eliminated from the marketplace, it is critical that the GSEs play a prominent role. HUD can accelerate this process by creating a specific refinance lending subgoal for borrowers and communities traditionally targeted by predatory lenders. If the GSEs become more aggressive in these markets, higher cost refinance lenders will find the market opportunities for loans with abusive features increasingly limited. If one outcome of the proposed housing goals is to increase homeownership in underserved markets, than another must be to preserve that homeownership by increasing the availability of affordable, responsible refinance products.

In addition, the proposed “special affordable” subgoal targeting multifamily rental housing falls short of what is needed to spur significant and much needed development of affordable rental units for special affordable households and does not challenge the GSEs to lead the market in the same way that the general goals do. Access to affordable rental housing, particularly for households with very low incomes, has been one of the major crises affecting cities in recent years. One significant barrier to increased production of affordable multifamily rental housing has been the lack of a more significant secondary market presence in purchasing development and construction loans.³ As HUD states in its notice, the “GSEs’ size and market position between loan originators and mortgage investors make them the logical institutions to identify and promote needed innovations and establish standards that will improve market efficiency.” However, HUD’s goals do not push the GSEs to implement such innovation. In preceding years, the GSEs were able to easily exceed the multifamily subgoal, often by over two and a half times. Despite this, HUD has chosen not to increase goals in this area. If HUD

¹See National Community Reinvestment Coalition. 2003. *The Broken Credit System: Discrimination and Unequal Access to Affordable Loans by Race and Age*. Washington, D.C.: National Community Reinvestment Coalition; Calem, Gillen, and Wachter. 2002. “The Neighborhood Distribution of Subprime Mortgage Lending.” Unpublished manuscript. October; Immergluck and Wiles. 1999. *Two Steps Back: Predatory Lending, the Dual Mortgage Market, and the Undoing of Community Development*. Chicago: Woodstock Institute.

²Immergluck and Smith. 2004. *Risky Business: An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures*. Woodstock Institute.

³From report of the Millennial Housing Commission (2002), *Meeting Our Nation’s Housing Challenges*.

Regulation Division
Department of Housing and Urban Development
June 29, 2004
Page 3

wishes to be consistent in its desire to use the housing goals to push the GSEs to lead the market, they should increase the multifamily goal to 2.5 or 3 percent of the dollar amount of GSE mortgage purchases in preceding years.

Woodstock Institute feels that HUD's proposed housing goals are a step in the right direction and should improve access to affordable mortgages to lower-income borrowers and underserved communities. We ask, however, that HUD considers the above suggestions to include minority goals and subgoals; create a goal specific to affordable refinance loans in communities targeted by predatory lenders; and develop a more challenging special affordable multifamily subgoal in its final version of GSEs' housing goals for 2005 to 2008. These changes would significantly enhance the effectiveness of the goals in compelling Fannie Mae and Freddie Mac to lead the mortgage finance industry in promoting access to affordable housing and closing historic lending and homeownership gaps for minorities.

Sincerely,

Geoff Smith
Project Director

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