



MORTGAGE BANKERS ASSOCIATION

December 9, 2022

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: AMI Threshold Increase for Home Ready and Home Possible Programs

Dear Director Thompson,

The Mortgage Bankers Association (MBA)¹ appreciates the Federal Housing Finance Agency's (FHFA) ongoing efforts to address our nation's long-standing challenges related to housing equity – particularly with respect to the racial homeownership gap. There have been many recent actions from FHFA that will help move the needle on this critical issue, including but not limited to the creation of the Equitable Housing Finance Plans, the support and use of Special Purpose Credit Programs (SPCPs), and reviewing the Enterprises' pricing to better serve core mission borrowers.

FHFA's efforts in this area are well aligned with MBA priorities and initiatives. As you know, last year MBA announced its Building Generational Wealth through Homeownership initiative. The goal of this initiative is to reduce the racial homeownership gap and provide African-American and Hispanic families with opportunities to benefit from the wealth-building potential of sustained homeownership. As we have reached the one-year anniversary of this initiative, we feel it is important to continue to push forward on these efforts and maintain momentum. We wanted to highlight an additional action we feel could be implemented in the very near-term that would have a significant impact on these efforts.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,100 companies includes all elements of real estate finance: independent mortgage banks, commercial banks, mortgage brokers, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

FHFA and the Enterprises should explore sensible expansions of eligibility for the Fannie Mae HomeReady and Freddie Mac Home Possible offerings. Under current guidelines, eligible borrowers cannot have incomes above 80% of the AMI.² Specifically, at a minimum, the income thresholds for these programs should be returned their previous standards:

- allow borrowers with up to 100% of AMI to be eligible for these programs, and
- eliminate the income limit for properties located in low-income census tracts.

MBA applauded FHFA's decision to eliminate upfront fees for Home Ready and Home Possible loans last month, which should increase affordability for those who are currently eligible. Even with this positive step, raising the AMI limits to expand access to these programs would still be beneficial as there are key features of Home Ready and Home Possible loans, such as a 3% down payment, that make homeownership attainable for historically underserved borrowers. The recent changes increasing affordability, paired with expanded access, could have a considerable impact.

A significant population of minority borrowers can afford a monthly mortgage payment and could benefit from access to these programs. Data in Fannie Mae's Equitable Housing Finance Plan shows that 42% of Black Americans own homes compared to 72% of non-Hispanic white Americans. Notably, the Black homeownership gap is persistent across all household income levels, which illustrates that although black families may be successful financially, they still face obstacles when it comes to becoming homeowners.

Access to capital required for a down payment is often a barrier, or even the sole barrier, blocking these borrowers from purchasing a home. Both Equitable Housing Finance Plans highlight this barrier, noting that white borrowers are about 30% more likely to be able to access \$3000 from family or friends to help with this cost. The wealth gap for minorities has been well documented, and as FHFA has noted, this lack of capital largely stems from discriminatory practices like redlining which have prevented communities of color from building wealth through homeownership for generations. For this reason, Black families are less likely to have received or expect an inheritance. An increase in the AMI threshold could better serve minority borrowers who have the means to meet their monthly mortgage obligations but may lack family resources or wealth to assist with a larger down payment.

Further, when analyzing home prices in cities with a significant Black population, it is clear that the income needed to afford a home in these areas is likely at least 100% of AMI. Data recently published by the National Housing Conference (NHC) shows that the income needed to purchase a home has doubled since 2019. Two of the nation's largest home builders recently analyzed their data for MBA, and results show that increasing the AMI has a significant impact on affordability and access to their communities for Home Ready and Home Possible borrowers. In one instance, for homes priced \$350,000 or less, raising the

² Fannie Mae, "HomeReady Mortgage Product Matrix." Available at: <https://singlefamily.fanniemae.com/media/8341/display>. Freddie Mac, "Home Possible Mortgage Features." Available at: <https://sf.freddie.com/working-with-us/origination-underwriting/mortgage-products/home-possible>.

AMI to 100% makes about 40% more of that builders' communities available to these borrowers. The second builder showed that there was a consistent increase in affordability in a small sample set of about 100 communities across four states. Based on their measures for eligibility, at 80% of AMI, none of the communities in that sample would be available to Home Ready or Home Possible borrowers, but increasing the AMI to 100% would make about 13% available. The obstacles facing minority borrowers are compounded as a result of the nation's current housing affordability crisis, which has been brought on by a housing supply shortage and rising rates. Expanding access to HomeReady and Home Possible programs could help alleviate some of these pressures and enable access to sustainable homeownership for minority borrowers during this challenging housing market.

MBA believes returning the income thresholds for HomeReady and Home Possible to 100% of AMI should be the **first step** in expanding and exploring other opportunities to enhance these products. There could be opportunities to reach additional underserved borrowers by increasing the income thresholds in targeted geographies. Another idea that should be explored is a special purpose credit program that raises the income thresholds even higher (i.e., 120% or 150% of AMI) for Black and Hispanic borrowers to expand homeownership opportunities while remedying prior exclusion from these opportunities.

As FHFA continues to evaluate various ways to expand eligibility, we encourage closely monitoring the impact of these changes to ensure targeted borrowers are being reached. It is important that all efforts to avoid unintended negative impacts, such as gentrification, are taken. For example, MBA recommends that Freddie Mac and Fannie Mae evaluate their communication and outreach processes related to the HomeReady and Home Possible programs. Ensuring minority and underserved borrowers are properly informed about these opportunities will be key to the success and impact of these enhanced programs. MBA and its members welcome the opportunity to work with the Enterprises on reaching out to potential borrowers.

We encourage FHFA and the Enterprises to continue to evaluate existing offerings for additional opportunities to responsibly advance sustainable mortgage credit. Thank you again for your ongoing commitment to this important issue. We look forward to continuing our partnership with FHFA on this and other critical housing issues.

Sincerely,



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President and Chief Executive Officer
Mortgage Bankers Association