March 11, 2022

The Honorable Sandra Thompson
Acting Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Thompson:

On behalf of the 1.5 million members of the National Association of REALTORS® (NAR), I submit this letter in response to the request for input (RFI), *Draft 2022-2026 Strategic Plan*. NAR appreciates the efforts by the Federal Housing Finance Agency (FHFA) to finalize the 2022 Enterprise Capital Plan, expand information sharing, improve stability, and continue supporting the charter duties. NAR also appreciates the FHFA's long-term plan to bring historically underserved groups into homeownership through innovative equity solutions. The homeownership gap is a result of more than a century of problematic practices and will take years of refinement, application, and tenacity to resolve, which the FHFA recognizes with this latest strategic plan.

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,200 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 25,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock, along with its availability to the widest range of potential homebuyers.

Homeownership is a central part of the fabric of the American dream and the Enterprises play an important role in achieving that dream. The Enterprises' congressionally mandated mission of providing liquidity to real estate investment, to markets in distress, and to underserved communities is a critical piece in improving homeownership for all Americans.

FHFA's Proposed Plan Lays out Important Directions

REALTORS® appreciation many facets of the proposed strategic plan. FHFA recommends finalizing the enterprises' capital rule under and incorporating more private capital, which was in fact completed on February 25th, 2022, and to adjust their pricing frameworks to better reflect their charter duties while in conservatorship. This latter point is an important shift in recognition that these entities' ownership, both public and private, are intertwined with their market structure and charter duties. REALTORS® note, though, that the pricing structure should support liquidity in all markets, even high cost and second homes. The FHFA should monitor its recent pricing adjustments to ensure that neither have priced borrowers out of the market nor reduced their access to mortgagee.

Likewise, NAR appreciates the FHFA's promise to improve equity and fair lending in the market through data sharing and the enterprises' equity plans. Finally, transparency and accountability were an Achilles' heel for the Enterprises prior to the conservatorship and will be critical to maintaining regulatory and market oversight of the Enterprises in the future. To this end REALTORS® agree with the FHFA's proposals to conduct risk-based reviews and both horizonal and spot inspections as well as requiring timely remediation of issues that are raised by the regulator.

Revisit the Pause on Pilot Programs

The Enterprises' pilot programs should restart. The pilot programs are a distinct comparative benefit of the Enterprises versus the government mortgage programs, like FHA and VA, and could prove useful in reducing risk and expanding credit to underserved communities. The Enterprises have proven tremendously successful under conservatorship in reducing production risk through innovation developed through pilot programs. Furthermore, this innovation will be central to expanding efforts to shed credit risk, to expand credit, to support new markets, and to expand equity in the market. Pilot programs should continue, with oversight that protects the intellectual property of the GSEs and groups the GSEs work with on regular basis.

Furthering Housing Finance Reform

The future housing finance system must provide mortgage capital in all markets, at all times, and under all economic conditions while maintaining an explicit government guarantee in the secondary market, which includes the availability of long term, fixed-rate mortgage products (i.e., 30-yr fixed-rate mortgage). To this end, there are important steps the FHFA can take to continue housing finance reform.

Under conservatorship, the FHFA has established guarantee fees and loan level pricing adjustments (LLPAs) that limit the Enterprises' ability to drive out competition or to extract excess profits. The FHFA should develop the structures and formal process to set a band of returns for the Enterprises' cost of capital to use in establishing their g-fees and pricing outside of conservatorship. This process should be non-political and incorporate an analysis of required returns in competitive markets for equity based on expertise from Wall Street, as well as insights on the cost of debt from CRT and reinsurance markets. The process must be transparent, include public comment, and could explore what investments are permissible for profits above established returns (e.g., retained capital, expansion of duty to serve programs, reduced LLPAs, or larger investments in Housing Trust Fund (HTF) and Capital Magnet Fund (CMF)). Importantly, such a process also recognizes the tenuous relationship between equity capital and charter duties by demonstrating how those benefits are portioned and preserved for both investors and those benefiting from charter duties, a necessary step in developing long-term stability.

A second important step is to research the costs and benefits of various forms of a government guarantee needed inside and outside of conservatorship. Such a study would analyze the extent of a guarantee (e.g., limited to the MBS and/or extended to the charter duties) and the extent of the backstop (e.g., explicit in legislation, based on a limited line of credit, or implied). Could the GSEs have intervened during the pandemic as they did without government support? Could the Fed expand liquidity by purchasing GSE debt as they have through multiple rounds of quantitative easing? These are critical questions that comingle the GSEs' capital structure and federal support. The enterprise capital rule, liquidity rule, and living wills are only limited exercises without answering this important question and such a study would benefit any potential future structure for the enterprises.

Housing Finance Reform: Build a System That Can Foster Equity

A recent NAR study illustrated the significant and persistent racial homeownership gap in America. Since 2017, the annual homeownership rate for White Americans has remained comfortably above 70%; however, the homeownership rate for Black Americans hovers around 40% – nearly 30 percentage points lower. This issue like many that the Enterprises are tasked in their charter to correct for, will require long-term solutions with the ability to weather financial costs and market vicissitudes. That's why NAR has devoted resources to developing a solution that can secure the charter duties and foster a vibrant housing finance system, while protecting taxpayers

To this end, NAR remains deeply engaged in reform of the Enterprises and has proposed transiting them to systemically important financial market utilities (SIFMUs). This proposal recognizes how the Enterprises' structure has been transformed in recent years and how they now act as market makers for the credit risk transfer and mortgage-backed securities that are used to distribute credit and rate risk from the portion of the secondary market that is governed by the Enterprises' unique charter duties. The market utility would attract investors at the lowest possible cost of capital, allowing the Enterprises to sustain or even expand their current investments in charter duties and Duty to Serve outside of conservatorship. Furthermore, this structure provides the best vehicle to preserve the Enterprises' charter duties, their critical functions in the market, maximize private participation and capital, prevent oligopolistic behavior, protect taxpayers, and maintain market stability.

Further Collaboration

Once again, we thank you again for your efforts to support the nation's housing market through this pandemic and to support distressed communities and underserved home buyers. We would greatly appreciate the opportunity to discuss the issues shared in this letter in more detail with you and your staff. If you have any questions or comments, please feel free to reach out to Ken Fears, NAR's Senior Policy Representative at (202) 383-1066 or KFears@Nar.Realtor.

Sincerely,

Leslie Rouda Smith

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2022 President, National Association of REALTORS®