U.S. MORTGAGE INSURERS

# 2022 Policy Priorities for Access, Affordability & Sustainability in the U.S. Housing Finance System

USMI strongly supports enabling homeownership for all mortgage-ready borrowers, including historically underserved households. We support efforts to remove barriers to homeownership and increase access to affordable and sustainable mortgage credit. These principles, as articulated in USMI's response to the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on its Equitable Housing Finance Plans, apply to specific concepts and proposals that aim to advance equity in the housing finance system. The private mortgage insurance (MI) industry welcomes the opportunity to work with FHFA, the government-sponsored enterprises (GSEs), and other housing finance stakeholders to advance these goals.

## POLICY PRINCIPLES

- Homeownership remains the primary vehicle for American families to create financial security and intergenerational wealth. It is paramount that homebuyers have equitable access to affordable and sustainable mortgage products.
- To meaningfully address barriers to homeownership, it is critical policymakers, regulators, the GSEs, market participants, and consumer advocates collaborate on initiatives that balance access to credit with prudent guardrails. Challenges associated with addressing borrowers' needs are complex but, for equitable homeownership initiatives to be successful, they should be collaborative, transparent, and consistent with sound risk management policies.
- In order for policymakers and market participants to monitor origination trends, analyze access to credit, and develop products that can sustainably expand access to affordable mortgage credit there should be increased transparency and access to data around the GSE's pricing, imbedded cross-subsidies, mortgage underwriting, risk management practices, valuation technologies/processes, and loan performance.
- Requirements and standards for housing finance system participants should be transparent to ensure the "bright line" separation between the primary and secondary mortgage markets, promote the financial strength of market participants, and encourage prudent risk taking.

## REGULATORY & LEGISLATIVE ISSUES

- Access to Low Down Payment Mortgages
- Housing Supply
- GSE Pricing – Loan-Level Price Adjustments (LLPAs)
- Down Payment Assistance (DPA)
- Coordinated, Consistent & Transparent Federal Housing Policies

## ADDRESSING OTHER BARRIERS TO HOMEOWNERSHIP

- Transparency & Collaboration
- Credit Score Reform
- Financial Literacy & Homeownership Readiness

| Access to Low Down Payment Mortgages | |
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| **Issue** | Homeownership is the primary means by which many American families create financial security and intergenerational wealth, but there are several barriers, including a lack of understanding about low down payment options, the myth lenders require a 20% down payment, and what it means to be "mortgage-ready." Today's market also presents barriers for first-time and repeat buyers with record home price appreciation (HPA) and a severe lack of affordable homes for sale. It is critical for homebuyers to have access to affordable and sustainable low down payment mortgage options. Low down payment mortgages are especially important for first-time homebuyers, 80% of whom rely on these products,[1] as well as younger and minority homebuyers.<br><br>The GSEs' flagship affordable mortgage products – Fannie Mae's HomeReady® and Freddie Mac's Home Possible® – provide access to affordable conventional mortgages for mortgage-ready low- and moderate-income (LMI) homebuyers, many of whom reside in traditionally underserved communities. These loan products feature underwriting criteria that allow for the GSEs to acquire and guaranty higher risk loans while also providing benefits to borrowers, including reduced or waived LLPAs, lower private mortgage insurance (MI) coverage, and the ability to put down a payment as low as 3%. |
| **Position** | The private MI industry has 65 years of experience in underwriting and actively managing credit risk to carefully balance access to affordable mortgage credit with prudent underwriting. Access to low down payment mortgages with private MI provides homebuyers with affordable and sustainable homeownership opportunities.<br><br>The HomeReady® and Home Possible® programs are targeted low down payment programs that offer credit flexibilities to responsibly assist borrowers to attain homeownership. These programs were introduced in 2015 and have been important tools in helping many families throughout the country responsibly purchase homes using low down payment conventional mortgages.[2] The GSEs can, and should, work with lenders, private mortgage insurers, and other stakeholders to continue to enhance these programs to ensure borrowers have access to sustainable mortgage credit and the GSEs, as well as taxpayers, have adequate risk protection. |
| **Recommendation** | FHFA and the GSEs should collaborate with industry stakeholders and market participants to create, refine, expand, and implement low down payment mortgage programs and other products to ensure borrowers have options in the conventional mortgage market. This collaboration should include additional data disclosures from the GSEs around performance and compensating factors for higher risk mortgages. Thoughtful refinements and/or expansions of affordable mortgage products, including HomeReady and Home Possible, with consultation from industry to ensure the conventional market serves more mortgage-ready LMI and minority homebuyers.<br><br>As FHFA and the GSEs also work on low down payment mortgage programs and products to address persistent racial and wealth gaps, they should collaborate with private mortgage insurers and lenders to ensure tailored risk protection and better outreach to underserved borrowers. The private MI industry stands ready to work with the GSEs on programs and policies to reach more mortgage-ready LMI, minority, and first-time homebuyers while ensuring safeguards remain in place to promote sustainable lending and risk protection. |

[1] Enact MI First-Time Homebuyer Market Reports.
[2] According to quarterly credit supplements, Fannie Mae acquired $112 billion in HomeReady mortgages for 2019-2021. Freddie Mac helped more than 623,000 families through $121 billion in Home Possible mortgages from 2015 through June 30, 2021.

| Housing Supply | |
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| **Issue** | 2021 saw the largest recorded mortgage origination volume – more than $4.8 trillion in first-lien originations – fueled in part by historically low interest rates. However, there was a very limited number of homes available with only 1.7 months of supply for single-family homes at year's end,[3] and rapid home price appreciation (HPA). Nationwide HPA in 2021 was 17.5%[4] and the low-end of the market experienced the largest HPA. Driving the high HPA is an imbalance between consumer demand and the construction of new homes – a trend that exacerbates housing affordability by further driving up home prices and putting homeownership further out of reach for many prospective homebuyers, most notably for first-time, LMI and minority borrowers. |
| **Position** | To meet the housing demands of today's borrowers and future homebuyers, and to ensure there is access to affordable housing, USMI strongly believes the nation must address the critical lack of affordable housing supply. The lack of housing supply for starter homes is particularly acute, and strong demand has driven up prices for entry-level housing to nearly unattainable levels for many first-time, LMI, and minority homebuyers. While supply shortages have been historically associated with urban areas, they are now prevalent across the country and several rural areas have experienced the highest rates of home price appreciation over the past couple years. |
| **Recommendation** | State and local building codes present significant restrictions for the construction and zoning of residential homes. It is imperative regulatory bottlenecks at the federal, state, and local levels be addressed. Further, policymakers must consider macroeconomic issues that directly affect costs of home construction, such as labor and tariffs' impact on building materials. Federal, state, and local officials should work together to create more consistent and coordinated housing policies, assess tax incentives for constructing affordable homes, improve zoning requirements to promote increased home production, and identify and reduce or eliminate red tape that contributes to building costs. |

[3] National Association of Home Builder, "New and Existing Home Sales" (January 26, 2022).
[4] Federal Housing Finance Agency, House Price Index – 2021Q4 & December 2021.

| GSE Pricing – Loan-Level Price Adjustments (LLPAs) | |
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| **Issue** | In 2008, the GSEs added LLPAs as a means to stabilize the housing finance system and further shield the GSEs against the risk of mortgage defaults. These crisis-era loan-level fees, which are based primarily on a borrower's down payment amount and credit score, are folded into the interest rate and affect the long-term monthly payment amount. These "upfront fees" impose significant costs on homebuyers and disproportionately affect access to conventional mortgage credit for homebuyers without large down payments, many of whom are first-time, younger, and/or minority borrowers. Research shows that 41.1% of Black and Hispanic borrowers pay over 100 basis points in LLPAs while only 28.7% of other borrowers pay that level of upfront fees.[5] |
| **Position** | To best balance the safety and soundness of the housing finance system, access to affordable credit, and prudent lending practices, GSE pricing should be based on transparent actuarial analysis of the potential risks and the benefits derived from loan-level credit enhancement. Further, GSE pricing should reflect the numerous, and significant, improvements since the 2008 crisis, including robust mortgage underwriting requirements and guardrails and enhanced financial strength of market participants. When the risk-reducing benefits of MI are not factored into GSE fees, consumers are charged twice for the same risk reduction, thereby increasing costs to borrowers and pricing some out of the conventional market altogether. |
| **Recommendation** | USMI supports a holistic review of GSE fees, including LLPAs. FHFA should work closely with industry stakeholders and market participants to reform LLPAs in a manner that appropriately recognizes the credit risk assumed by private mortgage insurers, accounts for the numerous improvements in the housing finance system, and promotes access to affordable conventional mortgages. As policymakers seek to increase equity in the housing finance system, it is time to reexamine LLPAs and make clear the cross-subsidization imbedded into the GSEs' pricing frameworks to fully understand and improve access to credit for traditionally underserved populations. FHFA could explore loan programs and products that include a waiver or reduction of LLPAs for qualified borrowers to make conventional mortgages more affordable for LMI borrowers, while still benefitting from the credit risk protection from private MI. |

[5] New American Funding, "Presentation to Urban Institute Mortgage Markets COVID-19 Collaborative" (June 18, 2021).

## Down Payment Assistance (DPA)

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| **Issue** | Surveys and reports routinely find that one of the biggest challenges that families face when it comes to achieving the American Dream of homeownership is saving for a down payment.[6] Throughout the country, non-profit organizations, as well as states, counties, and cities, operate DPA programs that provide financial assistance for mortgage-ready homebuyers who lack the funds for a large down payment. Eligibility standards and terms vary from program to program and DPA can come in the form of a grant, zero or low interest loan, or mortgage tax credit certificates. |
| **Position** | The private MI industry is centered around assisting mortgage-ready LMI families attain homeownership with down payments of less than 20%. It is why competitive low down payment options are critical for first-time and LMI homebuyers who should not be categorically confined to the Federal Housing Administration (FHA) segment of the mortgage market. Performance data attests to the value of down payments and simply eliminating the requirement of a down payment, or not creating a credit risk mitigant and offset for a lower down payment, may help borrowers initially, but does not promote sustainability for these borrowers or for the housing finance system. However, there are ways to mitigate this risk and ensure homebuyers have access to the conventional market in a sustainable and affordable manner, and therefore DPA programs should only be used for first-time, first-generation borrowers who may not have a 3% or 3.5% down payment. |
| **Recommendation** | DPA is a valuable tool for individuals unable to establish a 3% or 3.5% down payment and helps these homebuyers as they face a historically competitive housing market. Existing, expanded, and new DPA programs should balance responsible underwriting that promotes sustainable homeownership and access to affordable low down payment mortgage options. Further, it would be beneficial for FHFA, the GSEs, and stakeholders to collaborate on standardized terms, processes, and documentation requirements to increase operational efficiency for both homebuyers and entities providing DPA funds. It is important to acknowledge that policies should focus on meaningfully increasing homeownership, particularly among traditionally underserved groups, without negatively impacting affordability in the housing market by artificially driving up demand. DPA programs should be targeted to serve mortgage-ready borrowers who most need the assistance. It is important for DPA programs to be structured and operated in a sustainable manner to not create excessive leverage for borrowers and increase risk within the mortgage finance system. As federal policymakers look to increase homeownership, it is essential to do it in a manner that promotes sustainable homeownership for borrowers and put in place policies that support borrowers long after closing.<br><br>One element of DPA that should be explored to enhance borrower sustainability is dedicating a portion of a DPA to establish a reserve account for certain borrowers. Reserves have been proven[7] to be predictive of a borrower's ability-to-repay their loan and focusing on reserve accounts would prioritize getting people into homes and help them to be successful homeowners. |

[6] U.S. Mortgage Insurers, "2021 National Homeownership Market Survey" (June 22, 2021); National Association of REALTORS, "Tackling Home Financing and Downpayment Misconceptions" (January 2022); National Association of REALTORS, "Downpayment Expectation and Hurdles to Homeownership" (April 2020).
[7] JPMorgan Chase Institute, "Trading Equity for Liquidity: Bank Data on the Relationship Between Liquidity and Mortgage Default" (June 2019).

## Coordinated, Consistent & Transparent Federal Housing Policies

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| **Issue** | Conventional loans with private MI, and mortgages insured by the FHA and the U.S. Department of Veterans Affairs (VA) are the primary methods for Americans to attain homeownership with smaller down payments. Certain federal housing policies, however, can inadvertently and arbitrarily drive volume to a specific program and decrease lender and mortgage products options for some homebuyers. While some overlap should be expected, federal housing policies should neither encourage inappropriate competition between the conventional and government-backed markets nor shortchange borrowers. |
| **Position** | It is critical that first-time, LMI, and minority borrowers have access to mortgage options and not be confined to a specific market. History has shown the harm that underserved communities experience when the mortgage market is bifurcated, and when minority borrowers have fewer options in terms of lenders and product offerings. Federal housing policy – including regulations concerning capital requirements, eligibility thresholds, counterparty standards, and pricing – should not arbitrarily carve up the housing market and reduce borrowers' mortgage options. There are approximately 2.6 times the number of Home Mortgage Disclosure Act (HMDA) reporting lenders for conventional purchase loans than for FHA purchase loans.[8]<br><br>The FHA serves an important countercyclical role in the housing finance system. However, policymakers should recognize there is a vibrant conventional market that can serve many borrowers and prudently help them access affordable mortgage finance. In fact, over the past 65 years the private MI industry has helped more than 35 million families purchase or refinance a home with affordable and sustainable low down payment mortgages. FHA should carefully balance borrowers' access to competitive mortgage options with robust taxpayer protection so private capital can shoulder more of the risk rather than FHA, which is 100% taxpayer-backed.<br><br>FHFA, FHA, and Consumer Financial Protection Bureau (CFPB) should collaborate to implement a coordinated housing policy that promotes access to credit, supports prudent mortgage underwriting, and creates a level playing field through transparent and consistent standards. |
| **Recommendation** | 1. The FHA-insured market and the conventional market should complement one another rather than compete. The conventional market – where the credit risk is backed by private capital – is well positioned to play a bigger role in facilitating access to affordable credit while also providing critical risk protection to the GSEs, lenders, and taxpayers.<br><br>2. FHA should focus on its mission of supporting borrowers who do not have accessto traditional financing and utilize proper risk management strategies to ensure it can play its countercyclical role through all market cycles. The financial position of FHA should be such that it can weather future stress while continuing to support new borrowers.<br><br>3. Rather than implement policies that expand FHA-insured lending, the conversation should focus on how to prudently make low down payment mortgages more affordable and accessible. As policymakers and industry seek to address access and promote equity in the housing finance system, federal policies should prioritize increasing homeownership and not simply shift borrowers between lending or insurance programs.<br><br>4. FHA pricing, including the annual mortgage insurance premium (MIP) and the "life of loan" policy, should be properly calibrated to reflect the FHA's unique risk profile, ensure the financial health of the Mutual Mortgage Insurance Fund (MMIF), and preserve FHA's ability to serve new borrowers. Inappropriate premium reductions could exacerbate affordability issues by further driving up demand in a market that continues to experience significant supply constraints, especially in the lower end of the market. |

[8] For 2019, there were approximately 3,200 HMDA reporting lenders for conventional purchase mortgage versus only about 1,200 for FHA purchase mortgages.

## ADDRESSING OTHER BARRIERS TO HOMEOWNERSHIP

I. **Transparency & Collaboration:** As policymakers and industry work to address longstanding inequities in the mortgage markets, it is critical that consistent transparency be hard-wired into the housing finance system. Collaboration between regulatory agencies, the GSEs, market participants, and consumer advocates is important to monitor origination trends, analyze the credit box and mortgage market, and develop strategies and products to expand access to affordable and sustainable homeownership. One specific action should be for FHFA to finalize its “New Enterprise Products and Activities” rulemaking to implement a transparent and objective framework to assess new GSE products and activities to ensure they truly help borrowers and do not increase risk in the housing finance system. Key components of collaboration should include “data democratization” and expanded analytical capabilities to enable market participants to enhance access, affordability, and sustainability in the mortgage markets. Access to the most accurate and comprehensive data is beneficial to inform policy decisions around mortgage underwriting, regulatory guardrails, and borrowers' access to credit. Further, increased public access to more granular loan-level data will allow for better analysis of the intersection of race, mortgage originations, and homeownership.

II. **Credit Score Reform:** Today’s borrowers are more diverse than previous generations and future generations will be even more diverse. The housing finance industry should continue to evolve to support all borrowers and provide mortgage credit access to these diverse groups, while ensuring guardrails are in place to protect borrowers and the housing finance system. Policymakers and industry should work to increase the availability and use of alternative data in the mortgage underwriting process, including payment histories for rent, utilities, cell phones, etc. When done in a thoughtful and analytical manner, credit scoring reforms can balance strong underwriting with ensuring access to affordable mortgage credit. A borrower’s credit score is a key component of mortgage underwriting and changes to credit scoring requirements or processes should be done in close consultation with stakeholders and should increase transparency, marketplace competition, and access to mortgage credit.

III. **Financial Literacy & Homeownership Readiness:** Financial literacy and coordinated educational initiatives are valuable to demystify the homebuying process, provide vital information about the steps required to obtain a mortgage, and set families up for sustainable homeownership. Many first-time and first-generation homebuyers lack the information and resources necessary to successfully navigate the homebuying and financing processes. This includes coordinated efforts among the GSEs, industry, and other stakeholders to educate potential homeowners about what it takes to be “mortgage-ready,” and to specifically dispel the misconception that lenders require down payments of 20% or more to qualify for financing. Pre- and post-purchase counseling are important components of sustainable homeownership and helpful to bridge the various barriers and facilitate access to loan modifications and workouts in the event a homeowner experiences financial hardship. Further, in recognition of the increasing diversity among the mortgage-ready population, it is important that materials and mortgage professionals be accessible to limited English proficiency (LEP) consumers to ensure that language is not an obstacle for mortgage-ready homebuyers.