

March 11, 2022

Sandra Thompson
Acting Director
Federal Housing Finance Agency
Constitution Center
400 7th Street SW
Washington, DC 20219

Dear Acting Director Thompson:

On behalf of the private mortgage insurance (MI) industry and our member companies, U.S. Mortgage Insurers (USMI)¹ appreciates the opportunity to provide feedback on the Federal Housing Finance Agency's (FHFA) draft *Strategic Plan for Fiscal Years 2022-2026* (Strategic Plan).² The private MI industry has 65 years of expertise in underwriting and actively managing mortgage credit risk to balance access to affordable and sustainable mortgage credit with protecting Fannie Mae and Freddie Mac (the GSEs or Enterprises) and taxpayers from mortgage credit-related losses. The Strategic Plan outlines the FHFA's priorities as regulator and conservator of the GSEs and USMI appreciates the balanced proposal to focus on both equitable housing, including enhanced access and affordable mortgage credit, and sustainability.

USMI supports the overarching goals articulated in the Strategic Plan to: (1) secure the GSEs' safety soundness; (2) foster housing finance markets that promote equitable access to affordable and sustainable housing; and (3) responsibly steward the FHFA's infrastructure. These goals build on your previous statement that "broad, fair access and the stability of financial institutions work together as pillars of the nation's housing finance system"³ and the associated objectives are important to carefully balance safety and soundness with access to financing in the conventional mortgage market. Upon review of the Strategic Plan, USMI would like to make the following observations and recommendations:

- **GSE Pricing:** Objective 1.3 calls on FHFA to "require the Enterprises to update their pricing frameworks to enhance safety and soundness while providing enhanced support for core mission borrowers." USMI supports a holistic review of the GSEs' pricing framework, including their loan-level price adjustments (LLPAs) and imbedded cross-subsidies. GSE pricing should be based on a transparent actuarial analysis of the mortgage credit risk being guaranteed by the GSEs, account for the significant improvements in underwriting and risk management, and – for low down payment mortgages – reflect the risk-reducing benefits of private MI. Further, FHFA should work in concert with the Federal Housing Administration (FHA) to ensure that pricing promotes borrower choice and allows the GSEs to advance access and affordability in the housing finance system, including through their Duty to Serve Programs, affordable housing goals, and Equitable Housing Finance Plans.

¹ USMI represents the nation's leading private mortgage insurance companies and USMI membership comprises: Enact Mortgage Insurance; Essent Guaranty, Inc.; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty, Inc.

² Federal Housing Finance Agency, "FHFA Requests Input on Strategic Plan for Fiscal Years 2022-2026" (February 9, 2022). Available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Requests-Input-on-Strategic-Plan-for-Fiscal-Years-2022-2026.aspx>.

³ Sandra Thompson testimony before the Senate Committee on Banking, Housing, and Urban Affairs (January 13, 2022). Available at <https://www.banking.senate.gov/imo/media/doc/Thompson%20Testimony%201-13-22.pdf>.

FHFA should work closely with market participants, industry stakeholders, and consumer advocate organizations to review pricing and solicit feedback to best understand how the pricing framework impacts access to credit and the financial position of the GSEs. A transparent review process, including a request for information (RFI) exercise, will be beneficial to modify the GSEs' pricing framework in a manner that is consistent with policymakers' push to increase equity in the housing finance system.

- **Equitable Housing:** Objective 2.2 calls on FHFA to “promote fair and equitable treatment of mortgage borrowers and sustainable housing opportunities,” including oversight of the GSEs' implementation of their Equitable Housing Finance Plans (the Plans). In our October 25, 2021 comment letter⁴ to the FHFA's Request for Input (RFI) on *Equitable Housing Finance Plans*,⁵ USMI commended the FHFA for pursuing an initiative to identify barriers to sustainable housing opportunities, set goals to address those barriers, and implement policies to meaningfully advance equity in mortgage markets. As an industry exclusively committed to serving low- and moderate-income homebuyers with limited means for large down payments, USMI and our member companies support policies that facilitate affordable and sustainable homeownership for all home-ready homebuyers.

The challenges associated with addressing these borrowers' needs are complex and will require the engagement of many stakeholders. To ultimately be successful, it is essential that equitable homeownership initiatives be collaborative, transparent, and consistent with sound policy and risk management objectives. There must also be significant engagement and communication with, and transparency to, industry participants around how the Plans are assessed, approved, released, and implemented. This will promote collaboration between the GSEs, other market participants, and other stakeholders on policies and programs to address the racial homeownership and wealth gaps.

- **New Products and Activities:** Objective 1.1 calls on FHFA to “identify risks to the regulated entities and assess the safety and soundness of regulated entity operations,” including through robust supervision and examination of GSE business activities, risks, and products. This should apply equally to both current *and* new products and activities to ensure proper oversight and transparency around new products and activities that the GSEs aim to introduce to the market. In October 2020, FHFA released a proposed rule on *Prior Approval for Enterprise Products*⁶ to establish a process for the GSEs to obtain approval for new products and provide prior notice for new activities. USMI strongly supports a transparent and objective process to assess and, where appropriate, approve new GSEs products and activities. Specifically, new products, activities, and pilots should only be permitted when there is clear and compelling evidence that the GSEs are needed to fill a void that private market participants cannot meet. Accordingly, USMI urges FHFA to finalize the *Prior Approval for Enterprise Products* rulemaking.
- **Data and Technology Transparency:** On several occasions, the Strategic Plan calls on FHFA to continue – or expand – its data reporting and analysis activities. This includes work around advancing equity in housing finance (Objective 2.2), incorporating climate change into regulated entity governance

⁴ USMI's full comment letter is available at <https://www.fhfa.gov//AboutUs/Contact/Pages/input-submission-detail.aspx?RFID=1542>.

⁵ Federal Housing Finance Agency, “FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mae” (September 7, 2021). Available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Equitable-Housing-Finance-Plans-for-Fannie-Mae-and-Freddie-Mac.aspx>.

⁶ 85 Fed. Reg. 71276 (November 9, 2020).

(Objective 1.4), and promoting the use of FHFA data products (Objective 2.3). USMI strongly supports additional transparency and data sharing initiatives to enable market participants to enhance access, affordability, and sustainability in the mortgage markets. FHFA should implement policies that allow industry participants and consumer advocate organizations to truly serve as partners to the GSEs on initiatives that aim to promote equitable housing, address barriers to homeownership, and continue prudent risk management. To that end, USMI encourages FHFA, in conjunction with the Consumer Financial Protection Bureau (CFPB), to expand analytical capabilities by publicly releasing more granular loan-level performance data from the National Mortgage Database (NMDB) and mapping it to Home Mortgage Disclosure Act (HMDA) and other racial datapoints for better analysis of the intersection of race, mortgage lending, and homeownership.

Further, as FHFA works to “continue implementation of the final rule⁷ on the validation and approval of third-party credit scores model(s) that can be used by the Enterprises” (a component of Objective 2.5), it should ensure that the process is as transparent as possible during the four stages: (1) Credit Score Solicitation; (2) Submission and Initial Review of Applications; (3) Credit Score Assessment; and (4) Enterprise Business Assessment. Changes in credit scoring at the GSEs can significantly affect the mortgage origination process and the FHFA recognizes that the estimated industry-wide cost for a new single score environment is \$228-353 million and increases to \$374-614 million for a multiple score environment. As FHFA moves forward with implementation of the final rule, it would be beneficial for FHFA to reduce complexity and costs of any updated or new models or approaches to credit scoring, as both complexities and costs are burdensome for borrowers. To this end, it would be beneficial for FHFA and the GSEs, to the extent possible, to share data (back testing) and any kind of mapping or translation that has occurred between different scoring models and analytics so that stakeholders can ensure they all have the necessary information and ability to transition to new/updated scores. It may also be necessary to create an equivalency tool, based on the historical data analysis, in order to compare the two models.

USMI appreciates the opportunity to share its views on the FHFA’s draft *Strategic Plan for Fiscal Years 2022-2026* and we welcome any questions you may have regarding our observations and recommendations. Requests for additional information may be directed to Lindsey Johnson, President of USMI, at ljohnson@usmi.org or 202-280-1820.

Sincerely,



Lindsey D. Johnson
President

⁷ 84 Fed. Reg. 41886 (August 16, 2019).