FACT SHEET

Past is Prologue: Government Efforts to Increase Homeownership Have Been Met with Disastrous Results

In May 2023, The Biden-administration enacted a rule intended to increase homeownership for minorities and those with less than stellar credit by increasing mortgage credit fees on borrowers with good credit while lowering fees for riskier borrowers

Did you know...?

With the new fees, a homebuyer with a **credit score of 680 or above will now have to pay a 1% LLPA fee**. Those who make a 15% to 20% down payment will seeing the biggest increase — about $40 or more on their monthly mortgage payments.

Read more at USA today →

People with credit scores below 680 — riskier borrowers who are more likely to default on mortgage payments — **would instead receive a 1.75% discounted LLPA fee**.

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Former Obama FHA commissioner David Stevens: **"This is an unprecedented move"** and "has really convoluted the entire discipline and credit risk pricing structure that Fannie Mae and Freddie Mac have followed since their inception."

Read more at Fox News →

"This is the socialization of risk, and it flies **against every rational economic model**, while encouraging housing market dysfunction and putting taxpayers at risk for higher default rates."

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PAST IS PROLOGUE: GOVERNMENT EFFORTS TO INCREASE HOMEOWNERSHIP HAVE BEEN MET WITH DISASTROUS RESULTS

In May 2023, The Biden-Administration Enacted A Rule Intended To Increase Homeownership For Minorities And Those With Less Than Stellar Credit By Increasing Mortgage Credit Fees On Borrowers With Good Credit While Lowering Fees For Riskier Borrowers

As of May 1, 2023, "buyers with good credit are now paying more for a new house than those with less than stellar credit." (Boston25 News, 5/2/23)

- In January 2023, the Federal Housing finance Agency announced that two major government-sponsored entities, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) will be adjusting their single-family pricing framework starting on May 1, 2023. (Federal Housing Finance Agency, 1/19/23)

These changes are part of the Federal Housing Finance Agency's broader examination of fees to provide "equitable and sustainable access to homeownership." (*USA Today*, 4/23/23)

- With the new fees, a homebuyer with a credit score of 680 or above will now have to pay a 1% LLPA fee. Those who make a 15% to 20% down payment will seeing the biggest increase — about $40 or more on their monthly mortgage payments. (*USA Today*, 4/23/23)
- People with credit scores below 680 — riskier borrowers who are more likely to default on mortgage payments — would instead receive a 1.75% discounted LLPA fee. (*USA Today*, 4/23/23)

If you have a top credit score, you'll still pay less than if you have a low credit score. However, the penalty now for having a lower credit score will be smaller than it was before May 1. (*USA Today*, 4/23/23)

- Example: If you have a credit score of 740 or higher, you would have paid a 0.25% fee on a loan for 75% of your home value before May 1. After that date, you could pay as much as 0.375%. On a hypothetical $300,000 loan, that's a difference of $375 in closing costs. (*USA Today*, 4/23/23)
- Example: If you have a score of 659 and are borrowing 75% of the home's value, you'll pay a fee equal to 1.5% of the loan balance. Before these changes, you would have paid a 2.75% fee. On a hypothetical $300,000 loan, that's a difference of $3,750 in closing costs. (*USA Today*, 4/23/23)

These changes to any loan guaranteed by either Fannie Mae or Freddie Mac, regardless of the lender. (Their combined share of the market is nearly 60% of all new mortgages). (*USA Today*, 4/23/23)

The Now-In-Effect Rule Has Been Panned As "Upside Down Mortgage Policy" And Even Obama's Federal Housing Administration (FHA) Commissioner, Who Said "This Is Not The Way" To Increase Homeownership

The Wall Street Journal: "The winners are borrowers with weak credit scores—that is, riskier borrowers. … The FHFA [Federal Housing Finance Agency] is trying to make housing more affordable for some buyers by charging others more. Sounds like socializing credit risk to us." (*The Wall Street Journal*, 4/28/23)

- "This is the socialization of risk, and it flies against every rational economic model, while encouraging housing market dysfunction and putting taxpayers at risk for higher default rates." (*The Wall Street Journal*, 4/22/23)
- "Selling people houses they can't afford has never been a good idea. See the subprime loan collapse of 2008." (*The Wall Street Journal*, 4/22/23)

Former Obama FHA commissioner David Stevens: "This is an unprecedented move" and "has really convoluted the entire discipline and credit risk pricing structure that Fannie Mae and Freddie Mac have followed since their inception." (Fox News, 4/19/23)

- Stevens: "We can do better programs to help more minorities get into homeownership. This is not the way to do it." (Fox Business, 4/20/23)

On April 26, 2023, 14 U.S. Senators sent a letter to FHFA Director Sandra Thompson asking her to answer for the new "misguided" rule, writing that the Biden administration's efforts is a "step towards market inefficacy will only exacerbate the divide between those who contribute to the stability and solvency of our financial system and those who have, for various reasons, struggled fulfill their financial commitments." (Letter, 4/26/23)

- Additionally, "the fact that a proposal flaunting credit risk is being openly pushed by FHFA just a decade-and-a-half after the housing-led 2008 financial crisis is staggering." (Letter, 4/26/23)

On May 1, 2023, 27 state treasurers sent a letter to FHFA Director Sandra Thompson urging her to scrap the new rule, calling it "unconscionable." (Fox News, 5/1/23)

- Additionally, they likened the Biden administration rule to a "middle-class tax hike." (*The Washington Times*, 5/1/23)

Previous Attempts By The Feds To Expand Home Ownership Led To The Housing Market Crash

To promote homeownership, the Clinton Administration went to "ridiculous lengths" including promoting "paper-thin down payments" and pushing lenders to give home loans to buyers with "shaky financing and incomes." (Bloomberg, 2/27/08)

In 1999, Fannie Mae, under increasing pressure by the Clinton administration, eased credit lending requirements to extend loans to people with low credit scores. According to then-Fannie Mae chairman and chief executive Franklin Raines, the easing of lending requirements was to provide opportunities of homeownership for "many borrowers whose credit is just a notch below." (*The New York Times*, 9/30/99; *Los Angeles Times*, 10/1/99)

The easing of credit requirements including the consideration of credit histories and debt-to-equity ratios "encouraged riskier mortgage lending" as lenders issued adjustable interest-rate mortgages. (The Examiner, 9/15/08)

As a result of loosened credit lending requirements and adjustable interest-rate mortgages, which fueled demand leading to higher housing prices, poor and minority homeowners who typically would not have qualified for a home loan found themselves in homes they couldn't afford as mortgage rates increased. (*The New York Times*, 3/5/07; Federal Reserve History, 11/22/13)

- Lowered lending standards increased housing demand which pushed up prices, later leading to waves of defaults. (Bloomberg, 2/27/08)

The Housing Collapse Had A "Lasting Impact" On Minorities And Low-Income Households

The housing collapse had a lasting impact on minority communities, especially black and Latino families and low-income households, as most of their wealth was tied up in housing. (*Insider*, 7/25/17; Federal Reserve Bank Of St. Louis, 8/10/17)

According to the National Bureau of Economic Research, Latino and black Americans were 78 percent and 105 percent more likely to have a high-cost mortgage before the housing crash. As a result, nearly 8 percent of those minority families lost their homes due to foreclosure, compared to 4.5 percent of white families. (CNBC, 8/21/20)

According to the Urban Institute, all three racial groups (blacks, Latinos and whites) experienced home equity declines of over 34 percent. However, a study by the Bureau of Economic Research (NBER), found Latinos suffered the worst, with their home equity plunging 47 percent compared to a loss of 26 percent for blacks and 24 percent for whites. (Urban Institute, 4/2014; NBER, 2018)

Overall, the wealth of black families fell 47.6 percent and Latinos 44.3 percent due to the Great Recession. White families' wealth fell 226.2 percent. (Urban Institute, 4/2014)

According to a 2017 Harvard University housing study, the housing market crash of 2007 hit black communities "particularly hard" and they have struggled to rebound as the homeownership disparity between whites and blacks reached its highest in 70-plus years of data. (*The Associated Press*, 7/10/17)

- The study found whites, Asian Americans and Latinos were slowly seeing home-buying gains. (*The Associated Press*, 7/10/17)

Today, more Americans own a home now than in any year following the Great Recession, with the homeownership rate climbing to 65.5 percent in 2020 according to a 2022 report from the National Association of Realtors. (CNN, 2/25/22)

- However, black ownership remains lower than it was a decade ago, lagging at 43.4 percent. White ownership was pegged at 72.1 percent, Asian homeownership at 61.7 percent and Hispanic ownership about 50 percent, an all-time high. (CNN, 2/25/22)

As Credit Scores Plummeted In The Midst Of The Great Recession, Biden's New Policy Penalizes Those Very Americans Who Have Worked To Rebuild Their Credit

During the Great Recession, the average FICO credit score reached a nadir of 686 in October 2009 as the scores of 50 million people declined by more than 20 points, with nearly 21 million enduring a decrease of more than 50 points. (FICO, 9/10/19; FICO, 10/28/11)

Since then, the current national credit score has increased to an average of 716. (FICO, 12/7/22)

- Average credit scores by race: White – 727; Hispanic/Latino – 667; Black – 627. (Finmasters, Accessed 5/4/23)