

Director Sandra Thompson  
Attention: Comments/RIN 2590–AB22  
Federal Housing Finance Agency (FHFA)  
Constitution Center 400 7th Street, SW  
Washington, D.C. 20219

December 5, 2022

**Re: Enterprise Duty to Serve Underserved Markets Amendments Colonia Census Tract Definition**

Dear Director Sandra Thompson:

UnidosUS is a nonprofit, nonpartisan organization that serves as the nation’s largest Hispanic\* civil rights and advocacy organization. Since 1968, we have challenged the social, economic, and political barriers that affect Latinos through our unique combination of expert research, advocacy, programs, and an [Affiliate Network](#) of nearly 300 community-based organizations across the United States and Puerto Rico.

The UnidosUS Wealth and Housing Alliance (UWHA) (formerly the National Homeownership Network, or NHN) is the nation’s largest network of community-based organizations working to empower Latino wealth-building through homeownership. The UWHA network is a HUD-approved housing counseling intermediary, and trains hundreds of housing counselors to emphasize culturally competent counseling. Established in 1997, it includes 50 independent community-based organizations that support more than 60,000 families a year. This network of community-based financial and housing counseling agencies provides a deep understanding of Latinos’ homeownership challenges and opportunities.

In addition to direct services and counseling, UnidosUS also publishes reports, provides testimony, and advocates for policies that increase access to credit, make financial services more inclusive, and increase homeownership rates of low-income people and the Latino community.

Given our work and experience with the Latino community on homeownership—inclusive of efforts working in and adjacent to Colonias—we appreciate this opportunity to submit comments in response to the October 5, 2022, Notice of Proposed Rulemaking (NPRM) on the Enterprise Duty to Serve Underserved Markets Amendments published by the Federal Housing Finance Agency (FHFA).

UnidosUS generally supports FHFA’s proposed definition and use of “Colonia census tracts” to target efforts by Fannie Mae and Freddie Mac (the Enterprises) to meet the credit needs of these high-poverty rural areas. As outlined in the NPRM, the Colonia census tract model is based on Colonia Investment Areas, a concept developed by the Housing Assistance Council (HAC) for use by Fannie Mae in meeting its Duty to Serve the Colonias. UnidosUS appreciates HAC’s research and leadership on this issue.

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\* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout our materials to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race. Our materials may also refer to this population as “Latinx” to represent the diversity of gender identities and expressions that are present in the community.

### **Colonias are disproportionately home to young low-income Latino families.**

In the United States, the term Colonia is often used to describe neighborhoods and towns along the U.S. and Mexico border across Arizona, California, New Mexico, and Texas. The term Colonia usually implies the lack of potable water, sewer services, and electricity for residents. Colonias are generally considered to be rural border settlements given the lack of services.<sup>1</sup>

Colonias are populated overwhelmingly by individuals and families of Hispanic heritage. Hispanics make up more than three-quarters of the population in all Colonia Investment Areas, which is considerably higher than their 47% share of the population for the remainder of the U.S. and Mexico border region. Hispanics account for a stunning 88% of the population in Colonia Investment Areas in the state of Texas.<sup>2</sup>

Furthermore, Colonia Investment Areas are, on average, home to a relatively young population compared to the overall population. About 23% of the population in the U.S. is aged 18 and younger, but in the Colonia Investment Areas, some 30% of the Colonia Investment Area population is 18 years old or younger.<sup>3</sup>

What this means in practice is that Colonias, much like the overall U.S. Hispanic population, is poised to have a disproportionate impact on the future housing market in their localities.

### **While the underlying demographics position Colonia residents to make headway on Latino homeownership, Colonia residents are dramatically underserved by current mortgage markets**

The Enterprises, via the Duty to Serve statute, are required to provide leadership in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages on housing for very low-, low- and moderate-income families for the manufactured housing, affordable housing preservation, and rural housing markets.<sup>4</sup>

Yet current service levels are minimal. Use of conventional loans in Colonias (55%) is far below the U.S. average (73%) and even the average of non-Colonia border regions (72%).<sup>5</sup> Even with the disparate use of conventional loans in Colonias, the purchase of single-family loans is lower than it should be. As noted in Figure 1 of the NPRM, fewer than 50 loans were purchased per year in Colonias by the Enterprises.<sup>6</sup> While the origination of loans is an issue, it is clear that the Enterprises can substantially increase their presence in Colonias.

This lack of access to conventional loans leads Colonias residents to use informal or nonconventional financing mechanisms to obtain homeownership. Alternative financing methods too often come with higher costs and risky borrowing. This is an all-too-familiar story for Latino families pursuing homeownership who experience higher costs and increased risks compared to other borrowers.

### **UnidosUS supports FHFA's proposed definition and use of "Colonia census tracts" to target efforts by the Enterprises to meet the credit needs of these high-poverty rural areas**

Responses to questions in the Notice of Proposed Rule Making:

**1. What are the advantages and disadvantages, if any, to using Colonia census tracts instead of Colonias, for purposes of identifying and verifying Duty to Serve-eligible activities?**

There are several key advantages to the use of Colonia census tracts instead of alternate definitions of Colonias.

First, using census tracts represents a balanced approach. Using county geography is too broad and over-inclusive of areas that are not Colonias. The broader definition pulls focus from the highest needs areas of the counties. In contrast, smaller neighborhood boundaries would be too restrictive, and could miss Colonias that are dispersed and rural. The proposed Colonias Investment Area definition using census tracts as a base geography provides a useful approach instead.

Second, the Colonia census tracts also offer critical standardization that smaller or less defined units of geography like neighborhoods cannot. Importantly, census tracts are the smallest geography for which Home Mortgage Disclosure Act (HMDA) data is publicly available. This alignment allows for the ability to better understand the level of services to Colonias in the context of the broader mortgage markets as well as to assess changes in service and activity.

Third, the use of census tracts aligns with other high-needs areas of measurement and units of analysis for the Duty to Serve purposes. This standardization allows for better comparisons among other underserved markets for analysis.

In summary, using Colonia census tracts as the identifying unit has clear advantages when compared to the *status quo*.

**2. What are the advantages and disadvantages, if any, to revising the Duty to Serve “rural area” definition to incorporate all census tracts that contain a Colonia regardless of their location?**

The primary advantage of revising the Duty to Serve “rural area” definition to incorporate all census tracts that contain a Colonia regardless of their location is that *all* Colonias demonstrate significant underdevelopment. Even census tracts with Colonias that are in physical proximity to metropolitan areas tend to demonstrate severe underdevelopment of the built environment and a scarcity of conventional mortgage options. Although their individual histories may vary, Colonias largely embody similar characteristics, and enhancing services for all Colonia census tracts would yield significant benefits and improve equity.

One potential disadvantage is that the incorporation of all census tracts that contain a Colonia regardless of location could pull focus away from the highest needs areas. While economic, housing, and mortgage access deficits are generally present in any Colonia regardless of location, these conditions are consistently more acute in rural Colonia Investment Areas, especially with regard to the very low levels of mortgage activity. For this reason, a disadvantage

of the more inclusive definition is that it could potentially pull focus from the fact that even among Colonias, those in rural areas have the highest unmet needs.

To balance its objectives considering the observations above, FHFA should seek to increase the overall activity in all Colonia census tract areas with a specific focus on tracts with the greatest poverty rates.

**In conclusion, we concur that using census tracts containing Colonias as a basis for identifying and evaluating Colonias activities would meet the goals of the Duty to Serve statute and regulations and would position the Enterprises to better understand the target needs of the Colonias, standardize key metrics across other mortgage market data, and increase critical mortgage access for the underserved residents of the Colonias.**

For questions or follow-up, please contact Sam Kenney, Senior Housing Policy Analyst, at [skenney@unidous.org](mailto:skenney@unidous.org)

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<sup>1</sup> Colonias History, <https://www.hudexchange.info/programs/cdbg-colonias/colonias-history/>

<sup>2</sup> The Housing Assistance Council, "Colonias Investment Areas: Working Toward a Better Understanding of Colonia Communities for Mortgage Access and Finance", November 2020 <https://ruralhome.org/wp-content/uploads/2021/05/colonias-investment-areas-report.pdf>

<sup>3</sup> Ibid

<sup>4</sup> Legal Information Institute, 12 U.S. Code § 4565 - Duty to serve underserved markets and other requirements, Cornell Law, <https://www.law.cornell.edu/uscode/text/12/4565#:~:text=%C2%A7%204565-,12%20U.S.%20Code%20%C2%A7%204565%20%2D%20Duty%20to,underserved%20markets%20and%20other%20requirements&text=The%20enterprise%20shall%20develop%20loan,%2C%20and%20moderate%2Dincome%20families.>

<sup>5</sup> Lance George and Keith Wiley, Colonia Investment Areas: Working Towards a Better Understanding of Colonia Communities for Mortgage Access and Finance, Housing Assistance Council, November 2020, <https://ruralhome.org/wp-content/uploads/2021/05/colonias-investment-areas-report.pdf> page 38

<sup>6</sup> Enterprise Duty To Serve Underserved Markets Amendments, October 2022, <https://www.federalregister.gov/documents/2022/10/05/2022-21404/enterprise-duty-to-serve-underserved-markets-amendments>