GROUNDED SOLUTIONS NETWORK

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Marcea Barringer
Supervisory Policy Analyst
Federal Housing Finance Agency
400 Seventh St SW
Washington, DC

RE: Request for Input on Proposed 2025-2027 Duty to Serve Plans

Dear Ms. Barringer,

Thank you for the opportunity to provide feedback on Fannie Mae and Freddie Mac's proposed 2025-2027 Duty to Serve Plans. We want to begin by acknowledging Fannie Mae and Freddie Mac for the work they have put into their Plans. We know their respective teams take their obligations under Duty to Serve seriously. We also want to acknowledge your agency's stewardship of this process and your commitment to providing opportunities like these.

Fannie Mae

Loan Purchases

We appreciate that Fannie Mae increased their loan purchase targets from the previous cycle of Duty to Serve and we recognize the limitations that Fannie Mae outlines in their proposed plan in this area. That said, it is likely that the interest rate environment will markedly improve during the three-year plan period. The plan should acknowledge this and commit to revisiting loan purchase targets. We also agree with the sentiment that shared equity loans should "no longer [be] considered a niche offering but a standard product." However, we see little in Fannie Mae's proposed Plan that would result in this outcome. Their proposal relies on their certification initiative, a unilateral review of the model documents, and promises to review internal data. We detail our concerns on each of these areas below.

<u>Certification</u> – Fannie Mae's certification initiative has been active for over a year and now lists over 100 certified programs. We celebrate the initiative's success and see it as an important element of standardizing shared equity lending. However, this initiative is not sufficient on its own to meaningfully expand liquidity for shared equity; certification is good, but origination is better. We hope that Fannie Mae will commit to publicly publishing an analysis of the impact of certification on loan origination to shared equity homebuyers to evaluate its effectiveness. Anecdotal accounts from our membership indicate that it has had a mixed effect, but we do not have access to Fannie Mae's internal data, which would allow for a more definitive assessment of the program's impact on liquidity.

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Unilateral review of model documents - Fannie Mae also proposes a unilateral review of the model documents that are the foundation of a standardized shared equity mortgage market. We strongly discourage Fannie Mae from creating their own version of the documents that both Enterprises currently accept, especially without any engagement with other stakeholders in the shared equity field. It is particularly surprising to see this proposal since one of the documents was developed through a lengthy collaborative process that included Fannie Mae, Freddie Mac, and GSN.

Taking such a unilateral action would undercut the purpose of any previous and current standardization efforts, including Fannie Mae's own certification program. Certification promotes standardization in the field while creating different versions of the model documents would fracture it. This has been our consistent position over every cycle of Duty to Serve and we even suggested in 2023 that FHFA might mandate alignment between both Enterprises to achieve the necessary level of standardization. Unilateral modification of the model documents by either Enterprise would be a step backward and negatively impact Fannie Mae's ability to meet their Duty to Serve obligations.

Collaboration – Fannie Mae has kept much of their work on shared equity internal but the glimpses we are given by public documents indicate they have been actively developing their program. Their report from March 2024 on their 2023 outreach activities describes thoughtful activities undertaken within Fannie Mae to better understand the shared equity lending landscape, including a review of common features of program documents and identifying barriers to origination. They have also made changes to their Selling Guide to make the Guide more comprehensible to lenders and shared equity programs alike.

We understand that some types of internal analysis involve protected information that prevent collaboration with external entities. However, expanded collaboration between Fannie Mae and the other shared equity stakeholders would benefit their work by connecting Fannie Mae's data with the on-the-ground knowledge provided by practitioners and others. Whether this is through data collection and analysis, outreach, or simply regular communication between Fannie Mae and stakeholders, we feel that collaboration has multiplicative benefits for all parties involved. We ask Fannie Mae to consider incorporating a framework for collaboration into their Plan.

Freddie Mac

Loan Purchases

Freddie Mac's proposed loan purchase targets are in line with previous proposed and realized loan purchases. As with Fannie Mae's proposed targets, we recognize the need to develop reasonable targets but feel they should reflect the likely improved rate environment. Freddie Mac reported last week that mortgage rates dropped to a 15-month low. We feel that both enterprises are too conservative but respect the constraints at play. We cannot make more detailed comments on them without seeing the underlying data and the methods being used.

Technical assistance

The second part of Freddie Mac's proposal is more promising and expands what is possible through Duty to Serve. They propose a series of proactive steps to build the capacity of community land trusts (CLTs), lenders, and localities to support the development of shared equity programs. The scope of the technical assistance proposal is limited to two localities but would provide a foundation for further engagement.

Even with the limited proposed scope, this proposal represents a more robust foundational strategy for building liquidity in the shared equity market than any previous Duty to Serve activities undertaken by either Enterprise. This type of upstream approach grows the underlying market by cultivating programs and building relationships between the Enterprises and lenders. Importantly, the proposal by Freddie Mac includes convening stakeholders to improve their understanding of the needs of the shared equity market. Our interpretation is that these convenings will happen in the field, adding a depth of engagement that most outreach efforts through Duty to Serve have not had.

This element of Freddie Mac's proposal is strong, but we have some recommendations.

Expanded scope of engagements - We hope that Freddie Mac will raise the floor of engagements beyond the "at least two" mentioned in their proposed plan and ask them to increase it to at least four (or more) over the course of the 2025-2027 cycle. The interest in shared equity programs has grown significantly in recent years and there is no shortage of opportunities to stand up new programs. However, there must be a clear process in place to decide which opportunities are most viable.

Growing established programs - We also hope they will include a plan to incorporate a more explicit recommendation to support existing programs in addition to startups. This is mentioned in the first bullet of the 2025 activities, but it is not included in the subsequent years. Growing the capacity of established programs can be a more effective way to grow the market given limited resources.

Ongoing engagement with lenders - We also hope that Freddie Mac will explicitly include plans to engage with lenders to grow mortgage options throughout the 2025-2027 Duty to Serve cycle. They already do this type of engagement – we simply ask that they include it in their proposed plan as part of this TA.

Research

Part of our preliminary comments on both Enterprises' potential Duty to Serve plans in 2023 was requesting support for research and data collection, which is fundamental to understanding the shared equity field and establishing proper baselines for loan purchases and other Duty to Serve activities. We feel that better data leads to stronger programs with impactful outcomes. We continue to ask both Enterprises to support these research efforts.

Specifically, we hope that both Fannie Mae and Freddie Mac will provide support for research on three topics:

The state of the shared equity field - Thanks to support from Freddie Mac for our 2022 Census of CLTs and Shared Equity Entities, we have a strong foundation to work from. Support for ongoing updates based on the original data collection would give stakeholders important insights into the size and scope of the field as it develops.

The characteristics and performance of shared equity loans - The last study to evaluate the performance of loans on community land trust properties was in 2011. We hope that the Enterprises recognize the importance of these data to properly evaluate the riskiness of shared equity loans, which is often overstated.

Identifying barriers and opportunities - We hope to see a study of policies that prevent or encourage the growth of shared equity as a sector. This could include specific case studies of individual localities or a broader landscape analysis of the types of policies that seem to encourage the development of shared equity programs.

Over the years, partnerships with the Enterprises in data collection have been essential in building the case for shared equity homeownership. A modest investment in research can have a large impact on the field when translated into education and policy change and we hope Fannie Mae and Freddie Mac will both propose collaborative projects that will leverage their own resources alongside practitioners and advocates.

In closing, we want to again express our gratitude to FHFA for managing this process and to both Enterprises for the work they put into these proposals. We look forward to growing the shared equity field in collaboration with them and the hundreds of practitioners across the country working to provide affordable homeownership opportunities with lasting affordability.

Sincerely,

Brian Stromberg
National Policy Director