



Housing Finance and Regulatory Affairs
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Federal Housing Finance Agency
Division of Housing Mission and Goals
400 Seventh Street, S.W.
Washington, DC 20219

Submitted via the FHFA Duty to Serve (DTS) webpage: www.FHFA.gov/DTS

Request for Input on Fannie Mae and Freddie Mac Proposed Modifications to Their 2018-2020 Duty to Serve Plans

To Whom It May Concern:

On behalf of the National Association of Home Builders (NAHB), I am pleased to submit these comments on the Federal Housing Finance Agency's (FHFA) request for public input on proposed modifications by Fannie Mae and Freddie Mac (the Enterprises) to their Duty to Serve (DTS) 2018-2020 Underserved Markets Plans (Plans).

NAHB is a Washington, D.C.-based trade association that represents more than 140,000 members and includes more than 700 affiliated state and local associations in all fifty states, the District of Columbia, and Puerto Rico. NAHB members design, construct, and supply single-family homes, build and manage multifamily projects, and remodel existing homes. In the single-family market, NAHB's members construct custom housing, homes for first-time homebuyers, as well as low-and-moderate-income homebuyers. NAHB's multifamily members build and manage rental housing for renters in market-rate, affordable and federally assisted multifamily housing. Our builders are proud to construct over 80 percent of the homes produced each year that provide shelter for this Nation's families.

The ability of the home building industry to meet the demand for housing, including affordable housing, and to contribute significantly to the nation's economic growth depends on an efficiently operating housing finance system. This system must be flexible in providing for the unique housing and credit needs of populations across the country. Therefore, NAHB carefully considered the Enterprises' requested changes to their Plans and offers several recommendations.

Background

FHFA is requesting public input on proposed modifications by the Enterprises to their 2018-2020 Underserved Markets Plans under the DTS program.

On December 13, 2016, FHFA issued a final rule implementing the DTS provisions mandated by the *Housing and Economic Recovery Act of 2008*. The statute requires the Enterprises to serve three specified underserved markets – manufactured housing, affordable housing preservation, and rural housing – in a safe and sound manner by increasing liquidity for mortgage investments and improving the distribution of investment capital available for residential financing for very low-, low-, and moderate-income families in those markets. The DTS regulation requires the Enterprises to create Plans detailing the specific objectives and activities they will implement to fulfill the DTS mandate. These three-year Plans went into effect on January 1, 2018.

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The DTS regulation allows an Enterprise to request modifications to its Plan at any time. FHFA must provide a non-objection to a proposed modification for it to become part of a Plan. FHFA has determined that public input would be helpful in considering proposed modifications that would make substantial changes to the content of a Plan or could affect the concept score of an objective. FHFA has discretion to determine which proposed modifications will be subject to public input on a case-by-case basis.

In October 2019, FHFA published a request for information that sought public input on proposed modifications by the Enterprises to their 2018-2020 Plans under the DTS program. Fannie Mae submitted 24 modification requests to FHFA. Freddie Mac submitted 18. FHFA will consider all of the modification requests, but it is only seeking feedback on 15 of Fannie Mae's proposals and six of Freddie Mac's requests. Fannie Mae requests substantial reductions in loan purchase targets for the manufactured housing, affordable housing preservation and rural housing markets. In a number of these instances, Fannie Mae proposes to replace loan purchases with loan products or outreach. Freddie Mac's requests fall under the affordable housing preservation and rural housing markets. Five of these requests would eliminate all actions related to various rural housing programs/objectives. The sixth would revise the baseline and reduce loan purchase targets for Financing by Small Financial Institutions of Rural Housing Activity.

FHFA is seeking public input on the Enterprises' proposed modifications which would make substantial changes to the content of the Plans, or could affect the concept score of an objective. A title has been given to each proposed modification to identify it by Enterprise, underserved market, Activity number, and Objective number. FHFA will issue Non-Objections to the Enterprises to the proposed modifications, where appropriate, after consideration of the public input.

NAHB General Comments

NAHB's comments on the Enterprises' requested Plan modifications are guided by our previous comments regarding implementation of the DTS mandates. In previous comment letters, NAHB urged FHFA to permit the Enterprises significant discretion and flexibility to determine the market activities that are best suited to their strengths and those they can best implement within the designated underserved markets. NAHB cautioned FHFA against an overly prescriptive implementation of DTS requirements, and our comments urged FHFA to give the Enterprises DTS credit for research and development activities that might not show immediate results. Additionally, NAHB applauded FHFA's decision permitting the Enterprises to propose new products that would facilitate meeting DTS requirements and are consistent with the Enterprises' safety and soundness. NAHB urges FHFA to recognize efforts by the Enterprises to be creative in addressing unmet housing needs and support new product initiatives.

The focus of NAHB's comments on the Enterprises' specific requested Plan modifications will address activities and objectives for financing for the United States Department of Agriculture – Rural Development (USDA-RD) Section 515 multifamily portfolio, energy efficient mortgages for single-family properties, and partnering with very small institutions.

NAHB Comments on the Enterprises' Specific Proposed Modifications

Proposed Modifications to Fannie Mae's Plan

The Rural Rental Housing Program under Section 515 of the Housing Act of 1949 Activity, FNM_AHP_C1: Affordable Housing Preservation, Objective #1 – 2019: Eliminate loan purchase actions and change evaluation area type from loan purchase to outreach; add technical assistance and research tasks. 2020: Change evaluation area type from loan purchase to loan product and add lender outreach and training actions.

NAHB Comments:

In its justification for the proposed modification, Fannie Mae states it has not been able to agree with USDA-RD on a subordination structure or on programmatic features for a loan purchase product that that would satisfy both organizations' goals and align with both organizations' credit risk policies. Fannie Mae argues these problems make approval of a loan product enhancement in 2019 unrealistic. The Enterprise does, however, express a commitment to seek resolution of these issues.

NAHB acknowledges the unique challenges in developing new financing products for the Section 515 Multifamily Housing Direct Loan Program portfolio. Nevertheless, there is a very strong need for quality affordable rental housing in rural areas. Therefore, NAHB urges FHFA to direct Fannie Mae to pursue other creative solutions to preserve the Section 515 portfolio as the Enterprise continues efforts to reconcile subordination and programmatic features with USDA-RD.

Energy or Water Efficiency Improvements on Single-Family, First-Lien Properties that Meet the FHFA Criteria Activity, FNM_AHP_H2: Affordable Housing Preservation, Objective #2 – 2019 and 2020: Modify actions to align with industry timelines for the Uniform Loan Delivery Dataset and Uniform Appraisal Dataset; and reduce loan purchase targets in both years. 2020: Change evaluation area type from loan purchase to loan product.

NAHB Comments:

NAHB notes with interest that Fannie Mae acknowledges difficulty in identifying a home's energy efficient features through the current mortgage underwriting process. Specifically, Fannie Mae attributes some of the difficulty in meeting this objective to the fact that "lenders' underwriting and loan delivery systems do not provide a means of easily identifying loans on homes that have installed ENERGY STAR-certified appliances or products."

NAHB supports Fannie Mae's Proposed Modification 4: "To inform the redesign of the Uniform Appraisal Dataset and forms specified in the 2019 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions, work with the Uniform Data Committee to gain consensus for updating the appraisal form to include identified fields for property-level information about energy and water efficiency features."

NAHB is a strong advocate for including information on energy and water efficiency in appraisal reports, including data on third-party certifications and to which building code the home was built. There are many factors that impact a home's energy and/or water efficiency, including insulation, the home's envelope, fixtures, windows, daylighting, appliances, the HVAC system and the home's energy rating. Currently, the only way to capture such information is through the use of forms that supplement Fannie Mae's 1004 form,

such as the Appraisal Institute's Residential Green and Energy Efficient Addendum. NAHB strongly supports efforts to standardize and expand the details that are captured on homes as it will provide lenders and appraisers a more accurate assessment of the property.

Fannie Mae's support of adding data points on energy and water efficiency to the UAD will have benefits across the housing market and we look forward to working with Fannie Mae to achieve this outcome.

Housing for High-Needs Rural Populations Activity, FNM_RH_B-4: Rural Housing, Objective #4 (*New Objective*) – 2019 and 2020: New objective contains modified loan product and loan purchase actions eliminated from Objective #1 under this activity.

NAHB Comments:

In this new section, Fannie Mae lists the challenges of attracting lenders, investors and real estate developers and the ways it intends to address these challenges. NAHB appreciates the important distinctions of housing challenges in these regions, and supports the proposed activities of performing market research, sharing information with the public, testing and learning strategies for enhancing loan products, building partnerships with anchor institutions and advocating for manufactured housing.

NAHB urges FHFA to direct Fannie Mae to also include a solution that provides affordable new single-family housing opportunities in high-needs rural areas. The existing housing stock in these areas can be very outdated. Residents living in these areas of the country deserve to have options for new housing, which should not be limited to manufactured housing.

Financing by Small Financial Institutions of Rural Housing Activity, FNM_RH_C-2: Rural Housing, Objective #2 – 2020: Eliminate loan purchase actions and replace with test-and-learn transactions; change evaluation area type from loan purchase to outreach.

NAHB Comments:

NAHB supports Fannie Mae's proposed changes to pursue a test-and-learn strategy to better ascertain the ability to assist small financial institutions (SFI). Fannie Mae states that in 2020 it "...will take a more targeted approach to SFI bulk transactions, focusing efforts and resources toward the areas of the market where such transactions may have the most impact."

As part of these efforts, NAHB requests that Fannie Mae include an analysis of facilitating acquisition, development and construction (AD&C) financing activities for small institutions serving rural areas. NAHB believes that small institutions serving rural areas would benefit from a program that allows Fannie Mae to provide liquidity for AD&C activities. Creating such a program would also help to meet the objective to provide new single-family housing opportunities for high-needs rural populations.

Proposed Modification to Freddie Mac's Plan

USDA Section 515 Activity, FRE_AHP_4-A: Affordable Housing Preservation, Objective A – 2019: Eliminate all actions under this objective.

USDA Section 515 Activity, FRE_AHP_4-B: Affordable Housing Preservation, Objective B – 2020: Eliminate all actions under this objective.

High-Needs Rural Regions Activity, FRE_RH_1-I: Rural Housing, Objective I – 2020: Eliminate all actions under this objective.

Small Multifamily Rental Properties in Rural Areas Activity, FRE_RH_4-A: Rural Housing, Objective A – 2019: Eliminate all actions under this objective.

Small Multifamily Rental Properties in Rural Areas Activity, FRE_RH_4-B: Rural Housing, Objective B – 2020: Eliminate all actions under this objective.

NAHB Comments:

FRE_AHP_4-A sought to develop a new offering to preserve Section 515 properties, while FRE_AHP_4-B and FRE_RH_1 pertained to Section 515 loan purchases. FRE_RH_4-A and FRE_RH_4-B also pertain to developing a new product to preserve Section 515 properties and loan purchases, respectively.

Freddie Mac also cited failure to come to terms with USDA-RD on subordination as justification for its modification requests. Freddie requests removal of these objectives altogether and asserted that the Enterprise looks forward to helping recapitalize Section 515 properties through LIHTC Equity Investments.

NAHB acknowledges the unique challenges in developing new financing products for the Section 515 Multifamily Housing Direct Loan Program portfolio. Nevertheless, there is a very strong need for quality affordable rental housing in rural areas. Therefore, NAHB urges FHFA to direct Freddie Mac to pursue other creative solutions in addition to investing LIHTC equity to preserve the Section 515 portfolio.

Financing by Small Financial Institutions of Rural Housing Activity, FRE_RH_3-A: Rural Housing, Objective A – 2019 and 2020: Revise baseline and reduce loan purchase targets.

NAHB Comments:

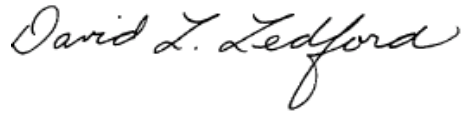
Freddie Mac notes in its plan that small financial institutions are the only source of financial services in many rural areas and these institutions are well positioned to understand the needs and know the stakeholders in their communities. Freddie Mac also states its commitment to strengthening the relationships with small financial institutions with assets of less than \$304 million to generate liquidity and expand the distribution of capital, and that it is committed to partnering with small financial institutions to leverage their market knowledge, experience and stakeholder network and to maximize the secondary market impact in the rural housing market.

NAHB requests that Freddie Mac consider working with these institutions to assess the AD&C financing solutions that may be needed by small financial institutions to meet the housing needs of these unique areas and to determine if there are further opportunities to provide liquidity by developing a program to support AD&C activities.

CONCLUSION

Thank you again for the opportunity to comment on these proposed changes. Please contact Jessica Lynch at jlynch@nahb.org or Michelle Kitchen at mkitchen@nahb.org for additional information or to answer any questions you may have regarding these comments.

Sincerely,

A handwritten signature in cursive script that reads "David L. Ledford". The signature is written in black ink and is positioned above the typed name and title.

David L. Ledford
Executive Vice President
Housing Finance and Regulatory Affairs