NCST

Homeownership Alliance

August 12, 2024

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
Division of Bank Regulation
400 7th Street SW, 7th Floor
Washington, D.C. 20219

RE: Request for Input Fannie Mae and Freddie Mac Proposed 2025-2027 Duty to Serve Plans

Dear Director Thompson,

The National Community Stabilization Trust (NCST) and the Homeownership Alliance are pleased to offer comments on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on Fannie Mae and Freddie Mac's Proposed 2025-2027 Duty to Serve (DTS) Plans.[1]

NCST is a national nonprofit that supports families and communities by facilitating the restoration of distressed single-family homes, thereby strengthening neighborhoods and increasing access to sustainable and affordable homeownership opportunities. NCST offers a multifaceted approach to revitalize vacant and defaulted properties, further best practices for community development across the nation, and advance federal policies to support equitable homeownership.[2]

To ensure NCST's policy recommendations are rooted in the practitioner perspective, we manage a nonprofit-led advocacy coalition called the Homeownership Alliance.[3] The mission of the Homeownership Alliance is to increase access to homeownership to narrow the racial wealth gap, improve access to long-term affordable housing, and revitalize disinvested communities without gentrification. Together, NCST and the Homeownership Alliance work to pursue innovative solutions to provide low- to moderate-income (LMI) and historically disinvested communities increased opportunities for affordable homeownership, as well as enhanced access to the nation's housing finance system.

Both NCST and the Homeownership Alliance are active members of the Underserved Mortgage Markets Coalition (UMMC), a group of national affordable housing stakeholders seeking to hold Fannie Mae and Freddie Mac (the Enterprises) accountable to their founding purpose: to bring housing finance opportunities to American families not traditionally served by the private market.[4]

[1] Request for Input: Fannie Mae and Freddie Mac Proposed 2025-2027 Duty to Serve Plans, (June 2024). Federal Housing Finance Agency.
[2] Property Acquisition, (2024). NCST.
[3] Established by NCST in 2021, the Homeownership Alliance is a practitioner-led coalition of 20 CDFIs and nonprofit housing developers serving 16 states, (2024). The Homeownership Alliance.
[4] Underserved Mortgage Markets Coalition, (2024). Lincoln Institute of Land Policy.

NCST

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Duty to Serve Mission

Since the inception of Duty to Serve, Fannie Mae and Freddie Mac have made momentous strides in advancing access to equitable housing finance services for underserved communities. The Enterprises' past accomplishments under this program prove that, albeit challenging, increasing liquidity and strategic investments in these specific markets is possible and can leave a profound impact on these historically disinvested markets. Our organization is especially supportive of the following initiatives by the Enterprises:

Freddie Mac:

- Provides more than $7.6 billion to finance more than 52,000 single-family homes in predominantly high-needs rural areas;[5]
- Disperses over $5.4 billion to finance 40,000 manufactured homes through its CHOICEHome product, which offers conventional financing for manufactured homes;[6] and
- Supports shared equity homeownership by offering conventional financing for homes with income-based resale restrictions.[7]

Fannie Mae:

- Offers MH Advantage, a housing loan product that offers flexible underwriting standards and reduced pricing for manufactured homes;[8]
- Continues to increase its loan purchases in high-needs rural regions, including purchases from small financial institutions;[9] and
- Allows HUD's Section 184 Loans, which provides low down payments and other flexible financing to Native American borrowers, including for homes on restricted tribal lands.[10]

While DTS is a largely successful program and represents a formal, ongoing commitment by the Enterprises to stabilize markets and increase access to equitable housing, there are a number of improvements required, particularly as it relates to the sale of distressed and defaulted assets.

Enterprise History in Distressed Assets

Following the aftermath of the 2008 mortgage crisis, when housing prices dropped and credit lines tightened, the Enterprises offloaded a large percentage of their single-family home portfolio onto institutional investors and other all cash buyers looking to purchase properties at steeply discounted rates.[11] While this decision was largely intended to stabilize markets and redistribute the GSEs overwhelming distressed asset holdings, it led to an unintended influx of investor activity in the single-family market, the impacts of which can be observed

[5] Making Good on Our Duty to Serve, (Aug 2023). Freddie Mac.
[6] CHOICEHome Mortgage, (2024). Freddie Mac.
[7] Shared Equity Programs, (2024). Freddie Mac.
[8] MH Advantage, (2024). Fannie Mae.
[9] Single-family rural housing, (2024). Fannie Mae.
[10] Native American Homeownership, (2024). Fannie Mae.
[11] Institutional Investors Outbid Individual Homebuyers, (2023). HUD's Office of Policy Development and Research.

today. It also created a number of unintended consequences for mission-driven organizations, like nonprofit housing providers, seeking to play a more active role in creating and preserving affordability for the nation's most underserved communities.

Challenges Surrounding Mission-Driven Organizations Engaging in Distressed Assets

There are a plethora of challenges that mission-driven organizations face when attempting to secure distressed asset inventory, some of which NCST and the Homeownership Alliance outline in greater detail below.

Institutional Investors Lock Owner-Occupants Out of the Market: The presence of institutional investors — which include single, nonindividual entities that have portfolios of 1,000 or more housing units[12] — has dramatically increased over the past 16 years, and their overall market share in the housing space sits at around 30%.[13] These buyers have a comparative, financing advantage that allows them to pay with all-cash offers, and they frequently fast-track their purchases by waiving common steps in the buying process — most notably inspection processes — that would otherwise be too risky for individual buyers to forego.

Because of their operational and financing advantages, institutional investors are prone to seek out properties that are both low-priced and in various stages of disrepair. The Urban Institute attributes this to the fact that these investors can repair properties more quickly and efficiently than an owner-occupant can, largely thanks to accessible lines of credit and cash sums.[14]

Investor activity is increasingly widespread, and its impacts on underserved communities and communities of color are particularly disparate. In 2021, approximately 30% of home sales in majority Black neighborhoods were to investors, compared to just 12% in other zip codes. While these for-profit actors have various motivations, many tend to maximize profitability by purchasing undervalued homes and holding onto them as single-family rentals (SFRs). This trend is particularly prevalent in underserved communities, and places systemically vulnerable populations — like those directly impacted by the Duty to Serve Program— in challenging positions.

Addressing predatory behavior of private investors in the housing market is critical, especially coupled with the devastatingly low supply of affordable homes for potential homebuyers. Tackling this issue head on will help to provide more equal and fair opportunities for homebuyers — particularly those in underserved markets —and enable these individuals to build home equity through sustainable and affordable homeownership.

There is a Lack of Data on Distressed Assets Available to the Public: In addition to disproportionately advantaged market forces, the lack of publicly available data on distressed asset sales — including concrete data on Non-Performing Loans (NPLs), Reperforming Loans (RPLs) and Real-Estate Owned properties (REOs) —

[12] Institutional Investors Outbid Individual Homebuyers, (2023). HUD's Office of Policy Development and Research.
[13] What Drove Home Price Growth and Can it Continue?, (June 2022). Freddie Mac Economic & Housing Research Note.
[14] Institutional Investors Have a Comparative Financing Advantage in Purchasing Homes That Need Repair, (Oct 2021). Urban Institute.

makes it particularly challenging for mission-driven organizations to track and engage in distressed asset transactions from the GSEs.

While the GSEs regularly publish the principal balance and loan count of their NPL, RPL, and REO transaction awards, they fail to convey a clear and factual picture of their buyer pools and do not disclose what the loan purchases are used for in the end. As such, Fannie Mae and Freddie Mac must restructure their approach to data sharing and take the necessary steps to inform the public of whether their actions are helping with or hindering housing affordability in the nation's most underserved communities.

Mission-Driven Organizations Cannot Compete with For-Profit Actors: NCST recently conducted a nationwide survey in which we asked our broad network of community-based buyers what types of barriers, if any, they experience in accessing distressed or defaulted assets. While responses varied based on geographical region, there were a number of underlying themes that stood out as particularly problematic across markets, including lack of internal capacity, the inability to access sufficient development capital, and difficulty in meeting high sale prices.

NCST and the Homeownership Alliance recognize the attempts made by the GSEs to help counter these challenges, including the launch of Freddie Mac's Extended Timeline NPL Pool Offering (EXPO) in 2015, a platform that auctions deeply delinquent non-performing loans from its mortgage investment portfolio.[15] EXPO auctions differ from the GSEs' Standard Pool Offerings, in that they include smaller pool sizes and an extended marketing period of 2 additional weeks intended to provide small investors extra time to secure funds and complete the transaction process. While non-profits are eligible to engage in these offerings, these mission-driven organizations were still forced to compete with other well-capitalized bidders — including private investors and minority and women owned businesses (MWOBS)— and are rarely successful in securing awards due to the fact that bidders are chosen on the basis of price.

Based on the creation of this program, it is apparent that the GSEs are well aware of the challenges hindering mission-driven organizations from participating in these transactions, and more must be done to provide relief and flexibility to these organizations. As such, there is an urgent and growing need to correct this misstep, and the GSEs must pivot to a nonprofit delivery system in order to meet our nation's housing needs and preserve affordability for generations to come.

<u>**Importance of a Nonprofit Delivery System**</u>

Nonprofits and other mission-driven organizations are uniquely positioned to help address the inequities in our nation's housing finance system and increase the overall supply of affordable, single-family homes. These entities have a clear understanding of local housing markets, and are able to strategically meet the unique and evolving needs of the communities in which they serve. The Enterprises have had a number of successful

[15] Freddie Mac Announces First Extended Timeline NPL Pool Offering (EXPO), (April 22, 2015). Freddie Mac.

outcomes in their histories of utilizing a nonprofit delivery system, most notably through the launch of the Neighborhood Stabilization Initiative (NSI).

In 2014, the FHFA, along with Fannie Mae and Freddie Mac, established the NSI — an initiative designed to stabilize neighborhoods that were hardest hit by the 2008 housing crisis, and to also reduce the inventory of REO properties held by the GSEs.[16] Upon launch, Fannie Mae and Freddie Mac jointly selected NCST to implement and administer the program, largely because NCST had proven experience in stabilization efforts for distressed communities and had an expansive network of community-based buyers with on-the-ground knowledge of individual properties in their respective regions.

Within this program, NCST's community buyers were offered an exclusive opportunity to buy foreclosed properties prior to being listed for sale to the public, and these properties were sold at fair market value — a figure that includes discounts for expenses saved through a quicker sale.[17] Following the successful launch of NSI's pilot program in Detroit, MI, NSI was developed into a comprehensive program that went on to expand to 28 different metropolitan areas with high volumes of vacant and foreclosed homes.[18] This partnership was hugely successful, as evidenced by the rapid geographic expansion of the program, and the FHFA went on to release a number of lessons learned from the program, as outlined below:

- NSI showed that critical to success are partnerships with local community buyers who have the financial capacity and expertise to renovate REO properties to meet local code requirements;
- Providing these buyers with an exclusive opportunity to purchase REO properties prior to Fannie Mae and Freddie Mac listing them for retail sale allows neighborhood stabilization goals, including reduced vacancy time, increased rates of owner occupancy and increased investment in rehabilitation, to be realized by properties sold through the NSI program; and
- The *Enhanced First Look* process was shown to be an effective tool to responsibly dispose of REO properties and stabilize neighborhoods.[19]

To date, Freddie Mac continues to administer its community stabilization efforts through NCST as a trusted intermediary, and we thank the GSE for its continued partnership on this front. However, in 2019, Fannie Mae terminated its partnership with NCST before pivoting to its current operations within its Community First Platform.

Although Fannie Mae does not actively partner with NCST to facilitate its distressed asset sales, we believe our previous relationship under NSI proves that this work is very much possible and has the potential for scalable success, if executed correctly. We request that Fannie Mae consider reimplementing its partnership with NCST through the Duty to Serve model, as NCST stands ready and willing to engage on ways to build upon past outcomes.

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[16] Neighborhood Stabilization Initiative, (Aug. 2022). Federal Housing Finance Agency.
[17] Neighborhood Stabilization Program Fact Sheet, (Dec 2017). Federal Housing Finance Agency.
[18] Neighborhood Stabilization Initiative, (Aug. 2022). Federal Housing Finance Agency.
[19] Neighborhood Stabilization Program Fact Sheet, (Dec 2017). Federal Housing Finance Agency.

Both Fannie Mae and Freddie Mac have, outside of the Duty to Serve Program, had high levels of successful engagement with mission-driven entities, and enshrining this requirement in the DTS model would be sure to create a positive and meaningful outcome in the nation's most underserved communities.

Recommendations for FHFA's Consideration

The GSEs' foundational mission calls on the Enterprises to assist with affordability and access in the marketplace, and this is much less likely to happen in the hands of for-profit seeking actors than it is with nonprofit organizations. In addition to redirecting distressed asset sales to mission-driven entities, the GSEs should encourage collaborative partnerships between mission-driven organizations and institutional investors as an innovative means to combat the nation's supply crisis and advance access to the housing finance system.

It is the fundamental belief of both NCST and the Homeownership Alliance that robust engagement with on-the-ground, mission-driven practitioners is a central component in revitalizing the nation's dormant housing stock. Enhancing opportunities for equitable homeownership, as opposed to relying on market forces alone, and embracing a nonprofit delivery system as a method to responsibly dispose of REO properties guarantees that these units will be kept in the hands of owner-occupants. In fact, some members of the Homeownership Alliance have cited instances of potential, and in some cases successful, collaboration between mission-based nonprofits and investors.

For example, the Atlanta Neighborhood Development Partnership Inc. (ANDP) recently launched a pilot program with specialized investment firm, Pretium, to bring more affordable housing opportunities to families in the region. Pretium is offering ANDP an opportunity to purchase vacant homes that the firm intends to sell prior to listing the properties on the Multiple Listing Service. ANDP will provide needed repairs and improvements and then sell the homes at affordable rates - with some units targeted to families that fit squarely within the parameters of DTS, specifically those below 80% up to 120% AMI.

ANDP also receives support from Investment Management Firm, MYND, who assists the organization in acquiring and managing Single-Family Rentals (SFRs) under ANDP's broader portfolio of responsibly-managed rental units. Over the next 7 to 12 years, the pair will convert roughly 50% of these affordable rental properties into single-family owner-occupied homes, creating more homeowners through a public-private partnership that centers ANDP's mission of furthering affordable homeownership in the metro Atlanta region. This initiative is guaranteed to help more LMI households enter into sustainable homeownership, thereby increasing the need for accessible and affordable financial products and services from FHFA and the Enterprises.

Mission-driven organizations, such as NCST's community buyers and members of the Homeownership Alliance, are best equipped to respond to community needs, particularly as it relates to vacant and foreclosed homes and redistributing them back to communities. These entities not only have the unique, on-the-ground perspective of defaulted properties and the neighborhoods they are located in, but have an advantage in the way they can connect with the individuals within the area and relay their specific needs back to the Enterprises.

Fannie Mae and Freddie Mac have an explicit duty to serve the nation's most underserved and historically marginalized communities, and should therefore be pursuing a number of innovative pathways to accomplish this goal. Realizing the benefits of a nonprofit delivery system would not only help to surpass these objectives, but would also help combat the dwindling supply of affordable homes available to LMI and underserved families. As such, it is imperative that the FHFA, Fannie Mae and Freddie Mac incorporate the sale of NPLs, RPLs and REO properties in their upcoming 2025-2027 DTS plans, as they would otherwise risk neglecting their statutory obligations to aid and advance accessibility for underserved markets.

We thank the FHFA for the opportunity to provide public feedback on this RFI and look forward to working with the Agency on ways to reach underserved communities and preserve housing affordability. For any further questions or points of clarification, please contact Emmerson McClintock at emcclintock@ncst.org and Elisabeth Coats at ecoats@ncst.org.

Sincerely,

The National Community Stabilization Trust (NCST)

The Homeownership Alliance