August 12, 2024

Marcea Barringer
Supervisory Policy Analyst
Attention: Duty to Serve 2025-2027 RFI
Federal Housing Finance Agency
Eighth Floor, 400 Seventh Street, S.W.
Washington, D.C. 20219

Re: Input on Fannie Mae and Freddie Mac 2025-2027 Duty to Serve Plans

Dear Marcea Barringer,

The undersigned members of the Underserved Mortgage Market Coalition (UMMC) appreciate the opportunity to comment on the 2025-2027 Duty to Serve (DTS) Plans proposed by Fannie Mae and Freddie Mac. We recognize the importance of the GSEs in setting the standards for the United States mortgage market and conclude that Duty to Serve is essential to helping the GSEs' achieve their mission responsibilities. In response to this RFI, the coalition held internal meetings of our four working groups with our members in all three DTS markets to identify what we find critically important for FHFA to consider and what is missing from the proposals. This letter outlines the priorities we find of utmost importance to consider in the next round of Duty to Serve. In February 2024, UMMC released its Duty to Serve Blueprint, listing its recommendations for the next iteration of plans. The blueprint serves as the foundation for the comments contained in this letter.

All co-signing organizations are members of the UMMC, but this letter is only on behalf of the undersigned organizations and has not been endorsed by all members of the UMMC.

## I. Manufactured Housing

### Purchase-money Mortgages

Fannie Mae and Freddie Mac's current proposed targets for acquiring purchase-money mortgage loans secured by MHRP are much lower than UMMC recommendations. We recognize that the Enterprises' baseline loan volume was calculated during an incredibly challenging time for the housing market, but as market factors shift to make homeownership more attainable for hardworking individuals and families, we hope the Enterprises will strive to exceed their goals. We urge both Enterprises to consider adding separate goals for refinanced mortgages, particularly for homebuyers who have previously been limited to personal property loans for manufactured homes. New programs could better serve these homeowners, and they should be included in pilots and programs that offer refinancing opportunities.

**Home-only Loans**

The UMMC is discouraged by the Enterprises' decision not to include regulatory activities related to the further research or development of pilot programs for the purchase of home-only loans. Home-only loans are important for borrowers not only in MH communities, but also on tribal and private land. In fact, only half of personal property loan borrowers live in manufactured home communities; a quarter are on family or tribal land, nearly another quarter are on their own land, and 1-2% are in resident-owned communities. Failure to serve this part of the market also disproportionately impacts Black, Hispanic, and Indigenous manufactured home buyers who are more likely to need and apply for personal property loans than their white counterparts.

The Enterprises should first develop programs to improve lender and secondary market participation. The lack of Enterprise programs has led to high barriers to entry for new lenders and an uncompetitive market. Second, they should establish standards for personal property loans to enhance consumer protections, helping homeowners remain stably housed through financial shocks. Today, personal property loans have fewer consumer protections than mortgages, but FHFA and the Enterprises can make improvements.

Additionally, the quality of homes should be factored into discussions around safety and soundness. With the commitment of Clayton, the largest homebuilder in this space, to construct all homes to the DOE's ZERH standard, a hugely significant number of homes financed as home-only will have greatly improved quality and energy-efficiency standards. These improvements translate to lower utility bills and increased borrower ability to make timely monthly payments.

## II. Rural

**Section 515**

Freddie Mac currently does not include any goals related to Section 515 properties. To preserve the Section 515 market, we urge Freddie Mac to develop a subordination agreement and add back loan purchases in this market. It would be preferable to continue to work towards the target, even if it is not met, then to eliminate this activity from consideration. Indeed, the DTS evaluation guidance explicitly acknowledges this scenario and allows the awarding of partial credit scores. We applaud Fannie Mae for its commitment to preservation technical assistance (TA) and modest purchase goals for Section 515 properties. Fannie Mae's TA goal and its efforts to continue working on purchases despite the challenges are a promising first step, yet we urge Fannie Mae to set its 515 purchase goals higher. After years of work to reach a subordination agreement with USDA, Fannie Mae needs to further commit to preserving 515 portfolios, not met through existing funding.

**Heirs Property**

We are encouraged by Freddie Mac's goal to focus on homeowner education for heirs' property, and Fannie Mae's goal to create a pilot or loan product for rural residents of heirs' property. Our organizations would like to see title issues for Native households explicitly included in these

heirs' goals. Although these issues may not fit the traditional definition of heirs' property, they may result in a similar decrease in financing options for property owners. We applaud Fannie Mae's goal to develop research and an eventual heirs' property loan product as an ambitious undertaking.

**Native Lending**

The UMMC calls on the GSEs to improve mortgage access for Native Americans and Tribal citizens both on and off tribal lands. In consultation with Tribes and Native-led nonprofits, the Enterprises should help support national banking access efforts and assist, wherever possible, as they continue to work to build relationships between tribal citizens and banks. The Enterprises should also increase banks' understanding of tribal law and their willingness to lend on tribal land, with specific outreach to local and regional lenders, Native CDFIs, Native-owned banks, and other relevant lenders such as national mortgage companies and Native-led nonprofits that offer revolving loan funds for mortgages.

Further, the Enterprises should establish on-staff Native lending and outreach teams to ensure that milestones are achieved. After establishing an outreach and education program for lenders and borrowers, both Enterprises should set a target for lender outreach by region and/or size/type of lender and with a clear milestone. This target should be explored through a research pilot initiated in 3 target areas with outcomes publicly released for evaluation every year. To increase Native homeownership across the country, we need to have down payment assistance and Native mortgage products that are available to tribal citizens regardless of where they reside.

## III. Single-Family

**Energy Efficiency**

Although we recognize Freddie Mac and Fannie Mae took some steps to prioritize energy and water efficiency objectives in their proposals, we were disappointed to note that more aggressive energy efficiency goals were not included in the Enterprises' 2025-2027 DTS plans. Energy burdens across the market remain significant and increasing loans financing energy efficiency purchased in high energy burdened areas can aid in reducing financial impacts felt by many low-income individuals, as fossil fuel prices continue to rise. We encourage Fannie Mae and Freddie Mac to increase loan purchase goals to meet our Duty to Serve Blueprint 2024 recommendations.

We urge Fannie Mae and Freddie Mac to collaborate with the financial intermediaries selected to implement the Greenhouse Gas Reduction Fund and the state energy offices deploying rebate programs to facilitate purchase of DTS-eligible energy savings products in all markets. This will allow the Enterprises to purchase loans that unlock additional financing opportunities for households to complete efficiency and electrification projects after relevant IRA incentives are applied. We expect that this will increase demand for green bonds and increase secondary market liquidity, encouraging more lenders to finance properties that promote affordability for low- and moderate-income households.

Fannie Mae and Freddie Mac could finance hundreds of additional Duty to Serve eligible mortgages as well as undertake impactful outreach activities to ensure opportunities for energy efficiency improvements are maximized through this historic legislation.

**Distressed Asset Disposition**

Fannie Mae and Freddie Mac's disposition of REO properties can be an important source of steady housing supply, especially for first-time homebuyers and other owner occupants who face stiff competition from institutional investors and all-cash buyers. Neither Fannie Mae nor Freddie Mac included distressed asset sales in their Proposed 2025-2027 DTS plans, and this inaction will have devastating consequences on the nation's most underserved communities.

This decision will enable for-profit entities to continue to control the single-family distressed asset market. It will also directly impact, and in some ways contribute to, the nation's affordable housing supply crisis that has disproportionately impacted the communities DTS is intended to serve. The Enterprises should revise their plans to prioritize the sales of nonperforming and reperforming loans, including real estate owned, to mission-driven nonprofits and/or government entities to ensure that properties remain in the hands of owner occupants and on the homeownership market.

**Shared Equity Homeownership**

We remain committed to the Enterprises prioritizing shared equity homeownership by continuing to increase their loan purchase targets and expanding understanding in the field. In past conversation and public comments on DTS plan modifications, we asked that Fannie Mae and Freddie Mac seek to standardize their products and requirements regarding lending for shared equity homeownership. Fannie Mae's proposed unilateral review of the model documents works against this. We urge Fannie Mae to collaborate with our shared equity experts and other stakeholders on any changes that may be required, rather than creating alternative versions of the model documents. As proposed, this activity would only fracture the field and make lending to shared equity homebuyers more difficult.

We support Freddie Mac's effort to provide TA to shared equity programs and believe that this objective will expand access to shared equity in the United States. However, Freddie Mac's loan purchase objective for shared equity properties falls far below the UMMC's recommendation. We cannot comment definitively on either Enterprise's targets since both Fannie Mae and Freddie Mac produced them internally with protected data. We appreciate that Fannie Mae has taken steps to more accurately identify shared equity loans, but while Fannie Mae's purchase targets exceed the UMMC recommendation, its change in loan identification methodology in 2023 inflates its 2022-2023 baseline of 265 purchases. We encourage both Enterprises to increase their loan purchase targets for shared equity.

**Targeted Equity Investments**

We recognize the impact equity investments could have on DTS markets and encourage both Enterprises to pilot equity investments. FHFA should permit targeted equity investments as part of Duty to Serve and the Equitable Housing Finance plans. The DTS statutory language clearly

states that the GSEs are allowed to make equity investments under their charters while also suggesting an intent to limit those investments to a very specific and constrained set of circumstances that support the GSEs' requirement to reach underserved markets.

We propose FHFA adopt two guiding principles for TEIs. First, there should be a distinct mission return in a market that is otherwise difficult for the GSEs to penetrate, whether because the primary market is originating an insufficient volume of loans for the GSEs to engage or because of other market conditions. Second, the TEI should be clearly distinguishable from a grant. While a TEI need not produce any financial return to the Enterprise beyond the principal, the investee should repay the principal, except when a TEI is used as credit enhancement and an associated loan product development pilot uses some or all the TEI to cover credit losses sustained in the process.

## IV. Multifamily Preservation

### LIHTC

The FHFA provides Duty to Serve (DTS) credit for Low-Income Housing Tax Credit (LIHTC) equity investments in rural markets, but there is a critical need to rehabilitate and recapitalize existing affordable multifamily properties in nonrural settings. In tandem with their DTS plans, the GSEs should explicitly seek permission from FHFA to receive credit for equity investments that preserve the affordability of nonrural LIHTC properties.

To appropriately evaluate the scale of the target activity, the GSEs should annually disclose their investment activities, broken down by rural investment, tribal investment, nonrural preservation investment, region and state, as well as planning and goal setting in sub-national areas (further outlined in National Community Reinvestment Coalition's submission). The plans should also set specific investment targets for each of the three plan years, with no less than 20 percent of the annual LIHTC equity investment planned. In Year 1, preservation-focused equity investments should be eligible for DTS credit, and data on existing nonrural preservation investment should be published, aggregated by the year of investment. Over Years 1–3, both GSEs should set specific activity targets, including units and capital deployed, for LIHTC equity investments in preservation.

Even in the absence of DTS credit for non-rural preservation equity investments, we urge the GSEs to disclose their activities annually and FHFA to incorporate the data in its dashboards.

### Qualified Contracts

We acknowledge Freddie Mac's commitment to review existing research on the use of qualified contracts provisions and develop a framework for interventions related to debt offerings. To prevent the loss of Housing Credit properties through the exercise of Qualified Contracts (QCs), the GSEs should adopt a multipronged approach. First, they should commit to acquiring multifamily loans on Housing Credit properties only if the owner has agreed to waive their QC rights. This will make it more difficult for developers to secure long-term debt financing if they have the option to convert Housing Credit properties to market-rate rentals after 15 years of rent and income restrictions. Debt financing on these properties would qualify for GSE purchase only

if the regulatory agreement between the developer/owner and the Housing Finance Agency (HFA) includes a waiver of QC rights, or if the owner agrees to a legally binding obligation to maintain affordability throughout the extended use period. Additionally, multifamily loans on properties financed with Housing Credits should be excluded from eligibility for GSE purchase if the owner has exercised the QC process to terminate rent and income limitations. Loans on such properties would require an attestation from the borrower confirming that the property has not gone through the QC process. The GSEs should develop loan and investment documents that include QC waivers and material breach language if the borrower attempts to exercise a QC, and create training materials to educate sellers, servicers, and borrowers on this policy change. This QC policy should be uniform on all government-assisted multifamily mortgage debt. It would be a counterproductive competitive disadvantage if only FHFA instituted the policy on the GSEs, leading the market to lean more on FHA or section 515 debts.

**Energy Efficiency**

As with single family preservation, we were disappointed to note that more aggressive energy efficiency goals were not included in Fannie and Freddie's 2025-2027 DTS plans for multifamily housing. Even more concerning is the lack of any proposed dedicated activity to increase loan purchase goals for products financing energy efficiency or the development of tools to educate on the financing available for efficient and resilient new and existing multifamily building stock. We encourage Fannie Mae and Freddie Mac to include specific activities for these objectives as were proposed for single family.

We urge Fannie Mae and Freddie Mac to collaborate with the financial intermediaries selected to implement the Greenhouse Gas Reduction Fund and the state energy offices deploying rebate programs to facilitate purchase of DTS-eligible energy savings products in all markets. This will allow the GSEs to purchase loans that unlock additional financing opportunities for multifamily developments to complete efficiency and electrification projects after relevant IRA incentives are applied.

We expect that this will increase demand for green bonds and increase secondary market liquidity, encouraging more lenders to finance properties that affordably house low- and moderate-income households. In addition to providing liquidity to the market for improved energy efficiency, Fannie Mae and Freddie Mac should commit to impactful outreach activities to ensure opportunities for energy efficiency improvements are maximized through this historic legislation.

**Baselines and Activity Targets**

For all proposed loan purchases, we request that the DTS plans provide activity-specific explanations for deviations (upwards or downwards) from a simple three-year average baseline. "Anomalous market conditions" should be contextualized as they impact the specific activity baseline. Likewise, activity-specific targets should explicitly factor in the size of the market opportunity for each activity rather than rely on aggregate multifamily volume projections. "Appropriate levels of liquidity" for the preservation market should be determined by program

considerations rather than modifications to market trends. Consider, for example, Freddie Mac's determination that the supply of Section 8 units is fixed but stable. That determination would indicate that a downward adjustment to the 3-year average baseline is unwarranted. A good example of program-specific calibration is Fannie Mae's explanation of estimated LIHTC properties and units entering their extended use period during the DTS plan years.

We believe that when baselines and opportunities are appropriately evaluated, annual loan purchase targets should generally be increased from the levels proposed in the current versions of the DTS plans.

Similarly, should Congress increase the LIHTC allocation or otherwise make additional resources available that impact the proposed activities, we would expect annual plan modifications to include increases to the targets.

**Conclusion**

The proposed 2025-2027 Fannie Mae and Freddie Mac DTS plans offer some encouraging and ambitious objectives previously unaddressed in housing finance. Yet, as summarized here, there are several changes FHFA should require to the proposed plan modifications.

In addition, there are several critical ways that FHFA needs to use its regulatory and conservatorship authorities to more fully incentivize a stronger secondary mortgage market. We have consistently suggested policy recommendations to FHFA which would help address underserved market and affordable housing needs, in a manner that is also entirely consistent with FHFA's safety and soundness mission. Among others, these include:

1. Clearly authorizing and encouraging Targeted Equity Investments in underserved markets;

2. Disclosing all the DTS ratings and impact scores FHFA assigns to each objective on a scale of zero to 50, as well as any narrative that would help us understand how FHFA arrived at that score; and

3. Mandating clear baseline evaluation criteria ensuring that the Enterprises do not set baselines lower than reasonable by removing from consideration years they deem atypical and offering goals that don't scale up year-over-year.

Thank you for considering our views.

Sincerely,

American Council for an Energy-Efficient Economy

Center for Community Progress

come dream. come build. cdcb

Consumer Federation of America

Enterprise Community Partners

Fahe

Grounded Solutions Network

Housing Assistance Council

Lincoln Institute of Land Policy

Local Initiatives Support Corporation

National Community Reinvestment Coalition (NCRC)

National Community Stabilization Trust (NCST)

National Housing Conference

NeighborWorks America

New Hampshire Community Loan Fund

Next Step Network

Oklahoma Native Assets Coalition, Inc.

Opportunity Finance Network

ROC USA

The Homeownership Alliance