



WI-CARH

Wisconsin Council for
Affordable & Rural Housing

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RE: Duty to Serve Underserved Market Plans for Fannie Mae and Freddie Mac

On behalf of the Wisconsin Council for Affordable and Rural Housing (WI-CARH), thank you for the opportunity to comment on the Underserved Market Plans.

WI-CARH was established in 1997 to advocate, educate and collaborate on affordable and rural housing issues in the state of Wisconsin. We are a not for profit and a member organization. Members represent owners, developers and property managers of mostly multi-family units although single family housing is a part of our focus.

We maintain open communication and have great relationships with our USDA-RD offices, the Wisconsin Housing and Economic Development Authority (WHEDA-state housing finance agency), HUD and other lenders, CDFI's and trade associations. Our message is coordinated through field days, training sessions and an annual conference held each year.

Our comments to both Freddie Mac and Fannie Mae concern the preservation and revitalization of rural rental housing. For many years, Wisconsin has emphasized preservation of federally assisted housing through their qualified allocation plan (QAP) associated with the Low Income Housing Tax Credit (LIHTC). However, as the preservation work has continued, a smaller percentage of tax credits have been set aside for preservation as priorities have changed and evolved around the state. However, the number of rural units in need of rehabilitation and new ownership has not diminished.

Our organization has an interest in the preservation of rural rental housing financed by the Section 515 program within USDA-Rural Development and authorized by the Housing Act of 1949.

Nationally, this program serves over 430,000 rural households nationally, almost 9,000 rural households in Wisconsin. With a combination of nearly 100% financing, interest credit reducing the interest rate to as low as 1% and the availability of rental assistance, made this a popular program in the 1960's, 70's and 80's. Peak funding for new units was in 1979 with almost 39,000 units constructed. However, there were more units constructed in 1979 than over the last 22 years combined. Average tenant income in a RRH

515 project is approximately \$12,000 per year. More than 60% of the units nationally serve the elderly, 62 years of age or older and/or people with disabilities.

The Duty to Serve plans reference the ability of the enterprises to address this underserved market in three ways, those being equity investments through LIHTC in rural preservation efforts, creating a loan product that may be compatible with RRH 515 existing debt and encumbrances and an educational/outreach effort to reach more potential owners of properties. WI-CARH endorses all these efforts.

LIHTC Equity Investments

The availability of tax credit equity for rural, non-CRA areas has always been problematic, if not for the number of investors, then the pricing of the credits. The argument has also been made by developers that small rural deals cannot find equity in Wisconsin. Although not entirely true, the lack of a robust market in rural areas is noticed and the push has been to increase the number of units that would qualify for the rural set-aside. Additional equity provided by the enterprises specifically for rural and preservation transactions will greatly accelerate the ownership changes and create capital for the estimated \$5 billion of rehab work needed on this portfolio nationally. The inclusion of enterprise equity along with process improvements from USDA in approving transfers and rehab budgets, will help preserve critical housing in smaller communities that likely will not see any new multi-family housing that is affordable. Dedicated equity for this portfolio will also encourage housing finance agencies to set aside and consider allocations of LIHTC for preservation and rural housing or increase their current set aside percentages. Currently, Wisconsin has a 20% preservation set aside and a 10% rural set aside.

Debt

Although the creation of a debt product may be desirable by the enterprises that would be compatible with an existing RRH-515 loan, the current Section 538 loan guaranty product developed by RD-USDA in 1996 and enhanced/modified since then, has been a productive program. Allowing 40 year amortizations, competitive rates and private sector lending, the guarantee authority has recently been raised to allow more lending in rural communities. We encourage the enterprises to look at creative debt products for preservation but also encourage the enterprises to provide liquidity by participating in the secondary market for these guarantees. My understanding is that neither enterprise is currently participating.

Education, Technical Outreach and Partnerships

This is an area of the plans that can have an immediate impact. Lenders, borrowers and housing providers can all benefit by better communication on existing loan programs but also helping to strategize on new offerings and products that will **actually work** in rural areas. The enterprises have been absent in these discussions. It has been noticed. Dedicated enterprise staff needs to be prepared to understand the rural needs, issues and work full time on these efforts. Local, regional and national partnerships need to be established that will benefit the greatest number of people in rural areas as possible.

WI-CARH looks forward to the implementation of the Duty to Serve plans and the benefits they can bring to underserved markets.

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