Jim Gray
Duty to Serve Program Manager
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

July 10, 2017
RE: Duty to Serve Draft Underserved Market Plans

Dear Mr. Gray:

Thank you for the opportunity to provide comments on Fannie Mae's and Freddie Mac's draft underserved market (DTS) plans. We believe that with well-designed plans, Fannie Mae and Freddie Mac can make a positive difference in underserved communities by preserving and expanding the availability of high quality, affordable housing. The DTS plans are meant to complement the housing goals also regulated by the Federal Housing Finance Agency (FHFA). While the goals measure yearly success at serving the mortgage market, the DTS requirement is meant to focus GSE attention on specific areas where a lack of primary and secondary market presence could be remedied by specific efforts to "lead the market" into them through new products, enhancements to existing products and partnerships with lenders and other stakeholders.

In this comment letter, we will identify areas within the plans for improvement as well as areas that need clarification for the public to assess whether the activity is likely to make a significant impact. We will recommend that the Enterprises commit to delivering more measurable results earlier in the duty to serve evaluation period and that the Enterprises work with FHFA to prioritize and concentrate resources on activities where they are best positioned to be effective. Finally, we'll recommend that the Enterprises make direct investments in Community Development Financial Institutions to make quick progress toward meeting duty to serve objectives.

**Plans should be more targeted and action-oriented**

Both Fannie Mae's and Freddie Mac's plans propose many specific activities under each of the designated underserved areas. A significant portion of these activities involve study, research and consultation. In most cases, there is little or no substantive credit improvements forecast until well into the second or even third years of the plans. Both plans cite extensive market research and consultation in each of the underserved areas. All of this preparatory work should enable the companies to launch pilots and actual changes to current credit practices in the first as well as subsequent plan years.

As an example, Freddie Mac's plan appears to propose some of the highest concept scores for planning and consultation across all the underserved market segments. Despite its acknowledged history in homeownership education programs in rural areas, for instance, Freddie Mac proposes a 3 year development cycle to expand it under the plan.[1] Moreover, in its plan for rural markets, Freddie Mac proposes to spend most of the plan period consulting with the appraisal industry to come up with a better means of addressing appraisal issues in rural markets.[2]

We appreciate the importance of consultations and partnerships to achieve the underserved market plan goals. But both companies have already carried out extensive preparatory work. There should be a bias for action in these plans that is lacking. As we and other commenters will point out, there are many capable partners in both the private and nonprofit sectors with proven track records who could begin generating concrete results and increases in credit in these areas. Rather than continuing to study the problems in these underserved areas before committing to such partners, the plans should lean much more to immediate pilots through which experience can be gained, studied, and where necessary modified in later years.

[1] Freddie Mac, Duty to Serve Underserved Markets Plan for Rural Housing, Activity 1, Objective C at 40 (May, 2017). Available at https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FreddieProposedUMP.pdf.

[2] Freddie Mac, Duty to Serve Underserved Markets Plan for Rural Housing, Activity 1, Objective D at 41.

In addition, FHFA should consider requiring the companies to reduce the number of specific activities to those with the greatest possible impact. We are concerned that by proposing so many measurable activities, especially given their emphasis on research and planning, that the plans will lack focus and the companies' management resources will be stretched in a way that will reduce the strategic impact of the work.

Finally, FHFA should consider how appropriate it is to measure impact in the underserved market plans by using percent of business measurements. The purpose of the DTS requirement is to focus Enterprise energy on specific market segments. The ultimate goal of the DTS requirement is to build the capacity to broadly and continually provide credit in these markets. Over time, the GSEs will increase the share of business they do in these underserved markets. However, the plans themselves should be focused on concrete results that may best be measured by a combination of percent of business and specific unit or loan number goals.

Even in a declining market, the plans should create new opportunities. In fact, if broader business trends are causing a decline in overall business, concentrated underserved market plan efforts could effectively raise the percent of overall business carried out. Matching market trends should not be the principal measure of success in the underserved market plans. For example, Fannie Mae's underserved market plan proposes specific unit counts against a nominal baseline in its manufactured housing plan,[3] while Freddie Mac proposes using a percent of business measurement.[4] In this case at least, Fannie Mae's approach seems to offer a more concrete and potentially more meaningful measure of success.

[3] Fannie Mae, Duty to Serve Underserved Markets Plan Manufactured Housing, Activity A, Objective 4 at 33 (May 2017). Available at https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FannieProposedUMP.pdf.

[4] Freddie Mac, Duty to Serve Underserved Markets Plan for Manufactured Housing, Activity 1, Objective A at 15.

**The Enterprises can accomplish DTS objectives through strategic investments in Community Development Financial Institutions**

Fannie Mae and Freddie Mac have proposed new, ambitious activities in their plans that will require significant time and resources to execute effectively. Community Development Financial Institutions (CDFIs) can be a great resource for the Enterprises as they begin work to implement their plans.

For example, Fannie Mae could more efficiently achieve its objective to preserve workforce housing,[5] by making direct investments in funds created by CDFIs to purchase and preserve the affordability of these properties. Making investments in these funds could allow Fannie Mae to make an impact more quickly and ensure the long-term affordability of the properties. Their current proposal does not ensure long-term affordability. The Housing Partnership Equity Trust, the Enterprise Community Loan Fund, the Community Investment Corporation and the Community Development Trust are all examples of CDFI partners who could help the Enterprises meet this objective.

There are similar opportunities in the area of manufactured housing communities, which Fannie has outlined in its proposal,[6] and for supporting the purchase and rehabilitation of distressed properties. Non-profits in hard-hit markets often rely on CDFIs for lines of credit and short-term financing to do this important community development work. There are also mission-driven funds serving underserved rural markets that could help the Enterprises meet objectives outlined in their rural underserved market plan.

Fannie Mae's and Freddie Mac's plans acknowledge the potential these organization offer for accelerating results in their plans. But both propose lengthy periods of study and

[5] Fannie Mae, Duty to Serve Underserved Markets Proposed Plan for the Affordable Housing Preservation Market, Activity L, Objective 1 at 114.

[6] Fannie Mae, Duty to Serve Underserved Markets Proposed Plan for the Manufactured Housing Market, Activity C, Objective 5 at 43.

consultation before moving forward with partnerships and investments with them. Freddie Mac, for instance, proposes two years of consultations to formalize a loan guarantee partnership with CDFIs in its rural market plan.[7] A delay of this length is unnecessary and counterproductive given the extent to which the CDFI industry has matured in the two decades since the Riegle Community Development Act was enacted. Capable, financially sophisticated CDFIs now serve the full range of underserved markets addressed in the GSEs' plans, a fact acknowledged by a number of large national primary market lenders, the Federal Financing Bank and several Federal Home Loan Banks, which already have similar relationships with CDFIs. Freddie Mac should be able to build on this experience to generate investments more quickly.

The GSEs have also suggested in briefings on their plans and in the plans themselves[8] that FHFA approval is necessary for such strategic partnerships with CDFIs. If this is the case we strongly urge FHFA to explicitly allow equity, equity-like debt and other debt instruments as eligible activities in the underserved market plans. Fannie Mae made such investments in the past under its charter and we are unaware of any new restriction that would prevent them or Freddie Mac from doing so again.

The CDFI sector has matured considerably since Fannie Mae and Freddie Mac were taken into conservatorship. Independent ratings through Aeris have become commonplace and well accepted by other regulated financial institutions making such investments. A number of CDFIs have become members of Federal Home Loan Banks, the other family of GSEs under FHFA regulatory authority, making them eligible for advances through the system.[9] A number of CDFIs also have qualified to participate in the CDFI Bond Guarantee program, offering 30-year financing through the Federal Financing Bank.[10] Both FHFA and the GSEs could rely on these reviews and ratings to streamline their own counterparty risk analysis.

[7] Freddie Mac, Duty to Serve Underserved Markets Plan for Rural Housing, Activity 1, Objective E at 42.
[8] Freddie Mac, Duty to Serve Underserved Markets Plan for Rural Housing, Activity 1, Objective E at 42.
[9] By February 2016, 40 CDFIs had joined the Federal Home Loan Bank system. See Oscar Perry Abello,"Connecting Big Banking to Community Investment," Next City, February 19, 2016, available at https://nextcity.org/daily/entry/cdfis-investment-federal-home-loan-bank-community-lending.
[10] For example, in 2016, The U.S. Department of the Treasury guaranteed $256 billion in bond funding on behalf of four CDFIs included Capital Impact Partners, Low Income Investment Fund, The Reinvestment Fund and Self-Help

**The Enterprises should commit to more ambitious loan purchase targets**

Fannie Mae and Freddie Mac could improve their underserved market plans by proposing stronger loan purchase goals throughout. In some areas, their current proposed targets are terribly inadequate. For instance, Freddie Mac requests 50 concept points, the highest score possible, for its plan to purchase far fewer mortgages secured by Section 8 Project Based Rental Assistance (PBRA) properties and properties financed through Low Income Housing Tax Credits(LIHTC) than they purchase today.[11] We understand that market conditions, including appropriations decisions and changes to tax policies, may make it more difficult to do business in these areas. However, a better approach would be for the Enterprises to set more ambitious targets consistent with recent market conditions with an understanding that FHFA should allow them to revise these targets if conditions change significantly.

Freddie Mac's plan to purchase resident-owned community loans is another example where the proposed loan purchase level may be too low. Freddie Mac, which already has demonstrated the capacity to purchase resident-owned community loans, commits to purchasing between 2 and 4 loans in the third year of their plan.[12] Although this market is small, Freddie Mac can do better. Fannie Mae, which does not have prior experience purchasing resident-owned community loans, commits to purchasing 12 loans during years 2 and 3.[13]

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Ventures Fund. https://www.cdfifund.gov/programs-training/Programs/cdfi-bond/Pages/award-announcement-step.aspx

[11] Freddie Mac, Duty to Serve Underserved Markets Plan for Affordable Housing, Activity 1, Objective A at 72; Activity 2, Objective A at 76.

[12] Freddie Mac Duty to Serve Underserved Markets Plan for Manufactured Housing,, Activity 3, Objective C at 27.

[13] Fannie Mae, Duty to Serve Underserved Markets Plan for Manufactured Housing, Activity C, Objective 3 at 42.

**The Enterprises should provide more clarity on rural rental proposals**

We strongly support the Enterprises' commitment to preserving expiring USDA 515 properties.[14] These properties serve as a critical source of affordable rental housing in rural America. Yet many of these properties are in deteriorating condition and at risk of losing the subsidies that make them affordable. Unless tackled head on, the approaching wave of maturing 515 properties will exacerbate rental affordability challenges in rural communities. We believe the Enterprises can strengthen their proposals in a few ways.

First, before FHFA approves their underserved market plans, the Enterprises should provide more details about how they plan to preserve the affordability of these properties. Do they plan to step in with financing before the 515 mortgage matures to preserve the affordability of the building or are they planning to provide financing to a new buyer after the 515 mortgage has expired?

In the latter case, the newly-financed building may not necessarily retain affordability as it would lose its reduced interest rate rural development mortgage and the associated rental assistance. In this instance, the GSEs should focus primarily on providing financing to buyers who commit to long-term affordability.

Second, as described earlier in the comment letter, it would be more beneficial if the Enterprises launched their work in this area over a shorter period. Both Enterprises proposed 2-year ramp-up periods before purchasing loans. We recommend they begin buying loans in year 2, even if only on a pilot basis. This is an area where engaging qualified CDFIs that have extensive experience in these markets could help accelerate impact. By providing capital to these entities to enable them to identify, underwrite and purchase such loans with commitments to sell them on to the secondary market the GSEs could increase available mortgage credit in these markets more quickly. We appreciate

[14] Freddie Mac, Duty to Serve Underserved Markets Plan for Affordable Housing Preservation, Activity 4 at 83; Fannie Mae, Duty to Serve Underserved Markets Plan for Affordable Housing Preservation, Activity C, Objective 1 at 83.

that safety and soundness concerns must play a role in any pilot or investment activities. But we also believe that a more urgent approach to finding such partners and empowering them to begin doing what they do best would be in the GSEs' best interest.

Freddie Mac has also proposed financing single family rental in rural markets as an additional activity. In its plan, Freddie describes its intention to focus on mid-sized single family rental operators. After one year of outreach, Freddie will pilot a new loan product and plans to purchase geographically diverse portfolios that include units in rural America. Freddie Mac should provide more information about their target market before dedicating significant resources toward this activity. It is our understanding that there are a minimal number of mid-sized single family rental companies operating in underserved rural markets.

We are also skeptical of the long runway proposed by Freddie Mac for LIHTC investments in rural areas. Setting aside the question of whether FHFA will approve such transactions at all, it is difficult to understand why it should take two years to identify opportunities and partners in this space when others have been actively working in these markets since the LIHTC's adoption in 1986.[15] We appreciate the need to rebuild systems at both Enterprises since their participation in this market was ended by FHFA. However, there is an active community of non-profit syndicators and state administrators that have remained focused in this area throughout. Both Enterprises should be able to accelerate their business plans by relying on these experienced sources.

[15] Freddie Mac, Duty to Serve Underserved MarketsPlan for Rural Housing, Activity 1, Objective F at 43.

**The Enterprises should support the purchase and rehabilitation of distressed properties**

Nearly a decade after the onset of the housing crisis, too many neighborhoods continue to be plagued by vacant and abandoned homes, many of which are owned by Fannie Mae or Freddie Mac. We support Fannie Mae's intention to help these neighborhoods move past the foreclosure crisis by making it easier for owner occupants and non-profits to purchase and rehabilitate distressed properties. Without concentrated efforts to support non-profits and owner-occupants, unscrupulous investors will continue to target these neighborhoods, further delaying their recovery.

In order to support non-profits that are purchasing and rehabilitating properties, we support the National Community Stabilization Trust's (NCST) recommendation that Fannie Mae design a new renovation product better suited to non-profit affordable housing developers. The HomeStyle renovation product, Fannie Mae's existing purchase and rehabilitation product, is designed for owner-occupants and has several features that do not work well for non-profit developers. For instance, the HomeStyle renovation product is underwritten on a loan-by-loan basis which makes sense for owner-occupant homebuyers purchasing one home. However, non-profit developers tend to buy and rehabilitate multiple properties at once and sell the rehabilitated properties to new owner-occupants in a short time period. The steep administrative and closing costs associated with securing financing for each individual property limit the ability of non-profit developers to achieve scale. A better renovation product would allow non-profits more flexibility.

As described earlier in the comment letter, this objective is another area where Enterprise investments in CDFIs could make a significant impact. As NCST describes in its comment letter, non-profits currently rely on lines of credit from CDFIs to purchase and rehabilitate distressed properties. Through targeted investments in CDFIs offering these lines of credit, the GSEs could begin supporting distressed neighborhoods immediately.

Fannie Mae should also consider additional ways to encourage access to credit for prospective owner occupants seeking to purchase distressed properties. The share of purchase mortgages originated with balances under $50,000 has decreased significantly in recent years, according to the Urban Institute.[16] For example, between 2005 and 2014, the share of new owner-occupied purchase money mortgages below $50,000 decreased by over 20 percent in Dayton, OH and Tampa, FL despite overall increases in the share of housing stock valued at under $50,000 in those metro areas.[17] The reasons for this decline are not clear at this time. However, in the absence of small mortgages, some consumers are turning to predatory products such as land installment contracts, to purchase homes.[18]

Fannie Mae's intention to improve the HomeStyle product is a good first step at addressing this problematic trend.[19] However, Fannie Mae should take more action. Fannie Mae could design a pilot in Neighborhood Stabilization Initiative cities to encourage more small balance mortgage lending and test out new incentives to encourage small balance mortgage lending, including through offering pricing discounts for small balance mortgages.

Thank you for the opportunity to comment. Please contact Sarah Edelman at sedelman@americanprogress.org with any questions or to discuss further.

Sincerely,
Center for American Progress
Consumer Federation of America

[16]Ellen Seidman and Bing Bai, "Where Have All the Small Loans Gone," The Urban Institute, April 18, 2016, available at http://www.urban.org/urban-wire/where-have-all-small-loans-gone
[17] Ibid
[18] "The Housing Trap," The New York Times, available at https://www.nytimes.com/series/the-housing-trap?action=click&contentCollection=DealBook&module=Collection&region=Marginalia&src=me&version=series&pgtype=article
[19] Fannie Mae, "Duty to Serve Underserved Markets Plan for Affordable Housing, Activity K, Objective 1 at 107.