



July 10, 2017

Mr. Mel Watt, Esq.,
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20219

RE: Comments on Proposed Fannie Mae and Freddie Mac Underserved Markets Plans

Dear Director Watt and your esteemed colleagues,

The Center for NYC Neighborhoods appreciates the opportunity to comment on the Fannie Mae and Freddie Mac’s proposed underserved markets plans. We thank you for the efforts that have gone into drafting the plans and believe they provide a solid foundation for increasing access to credit for underserved markets. We will focus our comments on shared equity homeownership and nonperforming loan sales.

About the Center for NYC Neighborhoods

The Center promotes and protects affordable homeownership in New York so that middle- and working-class families are able to build strong, thriving communities. Established by public and private partners, the Center meets the diverse needs of homeowners throughout New York State by offering free, high quality housing services. Since our founding in 2008, our network has assisted over 40,000 homeowners. We have provided approximately \$33 million in direct grants to community-based partners, and we have been able to leverage this funding to oversee another \$30 million in indirect funding support.

Over the last few years, the Center has participated in two key initiatives that are relevant to our comments today, the Community Restoration Fund Program, and the development of a Community Land Trust in New York City.

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About the Interboro Community Land Trust

The Center for NYC Neighborhoods is a strong supporter of shared equity homeownership as a tool for creating permanently affordable homeownership opportunities for New Yorkers. Shared equity homeownership provides access to below-market rate homeownership opportunities for moderate and low-income homebuyers. In New York City, these homebuyers are increasingly being shut out of the market due to prohibitively high prices.

With our partners Habitat for Humanity New York York City, MHANY Management, Inc., and the Urban Homesteading Assistance Board, we are leading the creation of a community land trust for affordable homeownership in New York City. The Interboro Community Land Trust, which is currently in the formational stage, will focus its initial work in communities that have historically been subject to disinvestment and that currently have high rates of foreclosure and mortgage distress.

Recommendations to Promote Shared Equity Mortgage Financing

Once established, the Interboro Community Land Trust will require affordable mortgage financing for homebuyers, including lending products from Fannie Mae and Freddie Mac. Obtaining such financing has been a challenge for shared equity programs in the past, as documented in a 2015 white paper by our partners at the Grounded Solutions Network. Therefore, we commend the focus on shared equity lending within the Fannie and Freddie underserved market plans.

Specifically, we support Fannie Mae's objective to increase access to Fannie Mae financing by making changes to loan products that increase the population of loans eligible for sale to Fannie Mae, simplify product parameters and loan requirements, and maintain appropriate risk controls. It's important to note that owners of shared equity homes have had extremely positive loan performance; therefore changes to Fannie Mae policies that will increase access to financing should be rolled out quickly and without undue delay due to unfounded concerns regarding loan performance safety or soundness.

Fannie Mae also included a loan purchase objective to purchase shared equity mortgage loans in order to increase liquidity in this market. Fannie Mae's goal is to purchase between 200 and 250 shared equity mortgage loans in year one and then between 400 and 500 by year three. We urge Fannie Mae to double these goals.

Additionally, Fannie Mae has stated that its current loan guidelines do not require the recordation as shared equity loans qualifying for DTS credit, so it is unable to determine a baseline. We encourage Fannie Mae to start tracking this information to properly account for how many loans they acquire that qualify for DTS credit. Part of Fannie Mae's first year process should include a review and accounting of this to ensure that its goals are based on accurate data gathering and reporting.

Freddie Mac's shared equity objectives are mainly research and outreach based. These activities are important and could be strengthened with broader and more strategic outreach efforts beyond providing, for example, "at least two lender trainings." Unlike Fannie Mae, Freddie Mac's objectives do not include loan purchasing goals or a pilot purchasing program. Given the need for greater shared equity financing, we encourage Freddie Mac to expeditiously create loan purchase objectives and/or develop a pilot program.

About the Community Restoration Fund Program

The Center for NYC Neighborhoods is a partner of the Community Restoration Program, along with the New York City Department of Housing Preservation and Development, Preserving City Neighborhoods Housing Fund Development Corporation, the National Community Stabilization Trust, and MHANY Management, Inc. The Community Restoration Fund Program was created in 2015 when HUD announced changes to its Distressed Asset Stabilization Program that offered New York City the opportunity to acquire pools of Federal Housing Administration non-performing loans for 1-4 unit properties through a direct negotiation for the first time instead of them being sold through an open auction.

In 2016, the CRF Program succeeded in acquiring 24 FHA distressed mortgage notes in New York City. Through the CRF Program, home-retention solutions such as affordable mortgage modifications that include principal reductions and/or forgiveness of arrears are the priority outcome. When a mortgage modification or refinance is not feasible, the Program strives to minimize displacement of homeowners and residents by establishing in-place rental outcomes. If homeowner retention is not possible, the Program seeks to provide relocation assistance to defaulted homeowners and ensure that the properties are repositioned as affordable homeownership or rental housing opportunities.

Today, the CRF Program is working to further stabilize New York City neighborhoods and ensure positive outcomes for homeowners and residents. To that end, we are PCN is actively working to identify additional sources of distressed mortgage note sales, including those offered by Fannie Mae and Freddie Mac.

Unfortunately, we have so far been unsuccessful in acquiring additional notes. In 2017, the CRF Program worked with Fannie Mae to establish a Community Impact Pool of geographically-concentrated pool of notes within New York City. In June 2017, the program participated in the bid auction for the New York City Community Impact Pool, where, despite meeting and exceeding Fannie Mae's reserve price, PCN was outbid by a private investor.

Recommendations

As FHFA states, the goal of non-performing loan sales are to reduce substantial non-performing loan inventories and improve homeowner outcomes. FHFA is indeed accomplishing its goal to reduce the substantial inventories of NPLs, but the enhanced requirements for NPLs, specifically the creation of small pools of NPLs for sale through community impact pools (CIPs) and extended timeline pool offerings (EXPOs), fall short in creating a program that will substantially improve homeowner outcomes. More specifically, by not limiting the bidders of CIPs and EXPOs to mission-driven nonprofits and local governments, FHFA is prioritizing disposition of nonperforming loans to private investors, thus impeding homeowner outcomes. It is clear that FHFA can achieve its goals of decreasing its NPL inventory, increasing homeowner outcomes, and improving neighborhood stabilization by further enhancing the program requirements by mirroring those adopted by HUD's DASP.

We specifically recommend the following reforms:

- **Bidder Qualifications:** In addition to requiring bidders to identify servicers who demonstrate a record of successful non-foreclosure resolutions, FHFA should also require that bidders of CIPs and EXPOs be exclusively non-profit organizations, local governments, or neighborhood advocacy organizations whose program goal is to optimize positive homeowner resolutions. Through this requirement, FHFA can further improve homeowner resolution outcomes and help stabilize communities.

- **Targeted Pools:** To improve outcomes for homeowners and their communities, FHFA should increase access to smaller, geographically concentrated pools by non-profit organizations and local governments by restricting participation of for-profit entities in CIPs and EXPOs.
- **Bidding Transparency:** To facilitate transparency of the NPL sales program and encourage robust participation by all interested participants, the Enterprises should establish a weighted bidding system whereby non-profit organizations, local governments, and neighborhood advocacy organizations that demonstrate (1) a connection to the community in which the NPLs for sale are located and (2) have the capacity and commitment to meet positive homeowner outcomes are given extra consideration. Furthermore, FHFA should establish a “First Look” process that gives these buyers the opportunity to be considered for pools before other bidders. Additionally, FHFA should establish a “Second Look” process that gives these same buyers the opportunity to match the highest bid on a pool or to bid to the upset price if the bid does not meet the Enterprises’ reserve price.
- **Direct Sales:** In an effort to prioritize non-profit participation and focus on home retention through mortgage modifications for long-term affordability, FHFA should establish direct sales of NPLs for competitive bids limited to non-profit organizations and local governments, as adopted by HUD’s DASP.

We thank you for the opportunity to comment, and look forward to working with Fannie Mae and Freddie Mac to promote and preserve affordable homeownership. Please contact Caroline Nagy at caroline.nagy@cnycn.org or 646-237-5921 if you have any questions or would like to discuss further.

Sincerely,

A handwritten signature in blue ink, appearing to read 'CPeale', with a long horizontal flourish extending to the right.

Christie Peale,
Executive Director