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RE FAU Comment on Proposed Fannie Mae and Freddie Mac Underserved Markets Plans

To Whom it May Concern:

All communities need teachers, firefighters, police officers, garbage collectors, municipal employees, sewer plant operators, health care workers, water works staff, contractors, landscapers, and retail salespersons, to list just a few essential service workers. Unfortunately, many communities fail to ensure that such workers have safe, affordable housing opportunities within a reasonable distance from their work. We are dealing with this issue across the nation.

We are American Citizens who are People of African Descent and our allies in a national organization called the Friends of the African Union. We are focused on the people of the United States who qualify as members of the African diaspora as per actions in 2005 of the African Union Assembly when it defined the African Diaspora as "… peoples of African descent and heritage living outside the continent, irrespective of their citizenship, and who remain committed to contribute to the development of the continent and the building of the African Union.".

Friends of the African Union (FAU) through its Chamber of Commerce (FAUchamber) is a member of the National Community Reinvestment Coalition (NCRC). FAU and FAUchamber appreciates the opportunity to comment on Fannie Mae and Freddie Mac's draft underserved markets plans based on the work done by NCRC (Pages 2-23). We believe that the plans, if developed carefully and implemented rigorously, could substantially increase access to credit for rural, lower income, and overlooked populations such as People of African Descent. While the Government Sponsored Enterprises (GSEs) present some innovative ideas and plans, FAU believes that the plans could be improved upon and targeted more effectively to regions and populations with pressing needs through public private partnerships.

FAU is a coalition of community based chapters dedicated to increasing access to credit and capital to American Citizens who are People of African Descent. Our members include those working in rural areas and underserved communities that are the focus of the Duty-to-Serve (DTS) initiative. We will continue to look for ways for our members to engage the GSEs through public Private Partnerships as they refine and implement their plans.

We will use the data in the NCRC generated document in our unsolicited proposal to the GSE's to develop Affordable Housing Solutions, in Ohio first, based the Fifth Third Bank and other NCRC driven Bank based Community Benefit Agreements through public private partnerships.

Hershel Daniels Junior

Chairman, Friends of the African Union

Common Shortcomings of the Plans

NCRC has identified common shortcomings of the DTS plans submitted by the GSEs. The shortcomings revolve around a lack of a robust needs analysis and development of performance measures. In particular, NCRC identified the following areas in need of improvement:

Lack of Needs Analysis

The GSEs would often cite national level statistics about housing cost burden or other measures of distress for a population targeted by underserved market plans. While stating that the needs of these groups are pressing, the GSE would then usually proceed to develop a baseline for a loan purchase objective and targets for one or more of the three years. NCRC did not observe a single instance of any sub-goals or sub-targets for particular geographical areas (aside from the mandated one for the high needs rural areas).

The reason geographical goals are important is that needs for various types of housing will differ by regions, states, and within states. For example, manufactured housing is more prevalent in the South and Mountain States while the East and West Coasts have the greatest needs for preserving units with expiring use restrictions associated with Department of Housing and Urban Development (HUD) programs like Low Income Housing Tax Credit (LIHTC) and Section 8.[1] Moreover, the needs for energy efficiency and weatherization upgrades will be more pressing in Midwest states with particularly cold winters. Fannie Mae discussed the needs of senior citizens for energy efficiency upgrades and/or aging in place upgrades. While this is important, it is not as meaningful as identifying areas of the country with concentrations of elderly with older housing stock in colder climates that could benefit from a geographical targeting strategy.

Fannie Mae would periodically use maps to display which states had the greatest numbers of a certain housing type but these geographical analyses did not seem to influence its goal setting. Freddie Mac did not present this type of spatial analysis, except for a promise to map rural rental housing.

The GSEs should develop well defined measures of need such as owner or rental cost burden and vacancy rates by state and by county. This data can then be overlaid with the distribution of manufactured housing units or affordable housing units in HUD's subsidy programs that are available to fill those needs. GSE patterns of purchasing loans can then be compared with counties identified as priority needs. If either GSE has relatively few purchases in high priority counties, they can then see if they can recruit lenders, particularly smaller ones targeted by the

[1] Fannie Mae, Duty to Serve Underserved Markets Plan, May 8, 2017, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FannieProposedUMP.pdf, 74-75.

DTS initiative, with which they can establish a business relationship. This type of analysis can then inform a geographical targeting strategy. If a GSE engages in a geographical targeting strategy, they could receive a higher score for the activity, particularly a higher score on the qualitative criteria that measures responsiveness.

If the needs analysis in the GSE plans do not significantly improve, the FHFA should consider conducting its own needs analysis and provide this needs analysis to the GSEs and the public. The FHFA would be engaging in an exercise that is similar to performance context analysis that occurs on Community Reinvestment Act (CRA) exams. The CRA performance context analysis is supposed to inform both the bank and the public what priority needs arise from an economic and demographic analysis of the geographical areas served by the bank. A particularly innovative initiative would be if the FHFA and the bank agencies engage in an interagency development of housing needs and performance context analysis.

Lack of Income Targeting

The three DTS income groups are very low-income (up to 50 percent of area median income), low-income (up to 80 percent of area median income), and moderate-income (up to median area income). In general, the draft GSE plans do not provide baselines or targets for each of the three income categories. One of the few exceptions was Fannie Mae's objective in manufactured housing in which the GSE was targeting MH Select loans for moderate-income households. The other two income categories did not have targets in Fannie Mae's MH Select loan proposal. Targets by income category ensures that the three income groups are receiving sufficient attention from the GSEs. Also, the geographical needs analysis described above is likely to reveal different degrees of need among the three income groups across geographical areas, which then should be addressed by careful targeting.

No Comparison to Primary Market

In developing baselines and targets for the objectives, the GSEs did not consider the level of primary market activity. If GSEs want to be judged as having a high concept score on objectives, they should demonstrate leadership vis-a-vis the primary market. One way to demonstrate leadership is if a GSE's percent of purchases for an income group is higher than the percent of loans that the primary market is making to that income group. The GSEs do not engage in this type of analysis in their draft plans. Hence an important comparison to the primary market is lacking, meaning that the reader of the plans do not know if the GSEs are leading or lagging the primary market.

In its draft plan, Fannie Mae will occasionally use the Home Mortgage Disclosure Act (HMDA) data such as describing the level of manufactured home lending by state.[2] However, this use of HMDA data does not compare primary and secondary market activity. If the GSEs do not voluntarily use HMDA data or other primary market data to the extent possible in their draft plans, the FHFA should consider conducting or requiring this type of data analysis so the public knows whether the GSEs are proposing to lead the market, match the market, or lag the market. The GSEs could also explain their reasoning behind their positioning with the primary market.

Different Methodologies to Develop Targets

The draft plans do not facilitate comparisons between the GSEs because they used different methodologies in establishing loan purchase objectives. Freddie Mac would often express goals as a percent of their portfolio and then describe percent increases that would merit various concept scores.[3] Fannie Mae would present a baseline and then targets in absolute numbers for each of the three years.[4] Unless the reader converted Fannie Mae's numbers to a percent of their portfolio, it is not possible to directly compare Fannie Mae's and Freddie Mac's goals using a consistent performance measure. In contrast, CRA exams conducted by the same prudential regulatory agency facilitates direct comparisons among banks because the performance measure is expressed in a consistent manner such as a percent of a bank's portfolio.

The FHFA must require consistent performance measures for the GSEs' loan purchase objectives. The targets should be expressed as a percent of the GSE's portfolio which then can be compared directly with the primary market's percent of portfolio to a demographic group or geographical area. HMDA data can be used to capture the primary market's percent of portfolio in the underserved market plans for manufactured home lending and rural areas. In addition, it is useful to also present the goals in absolute numbers as Fannie Mae does. Generally, Fannie Mae is the larger institution with higher purchase volumes so it is to be expected that the number of purchases will be higher for Fannie Mae. Yet, the number of purchases helps to size the market and also prompts questions when Fannie Mae trails Freddie Mac in a market. In addition, FHFA and the GSEs should devote some thought as to whether an additional measure of loans per assets or some measure of capital will help the public determine the efforts, after adjusting for size, the GSEs are making in the various markets.

The consideration of prior year activities in determining targets also differed by GSEs. Freddie Mac would often use its purchase volume in 2016, which was usually lower than the purchase

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[2] Fannie Mae Plan, 20.
[3] Freddie Mac Duty to Serve Proposed Plan, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FreddieProposedUMP.pdf, 15.
[4] Fannie Mae Plan, 33.

volumes in 2015 and 2014. Freddie Mac would often comment that forecasts of primary market activity predict declines in loan originations in upcoming years.[4] In contrast, Fannie Mae would often use a three year average of previous purchase volume and would not mention predictions of declining lending volumes in the future. Fannie Mae would then not comment on future economic conditions or lending markets when presenting its targets.

The differences in GSEs' use of previous years in developing targets generates questions about whether the GSEs differ on their opinions of future economic conditions or whether Fannie Mae may be more optimistic about its future financial condition since it was not as conservative in target setting as Freddie Mac. The target setting by both GSEs could benefit from a more frank discussion of external and internal conditions. More transparency on internal and external conditions would facilitate more insightful comments from the public. Also, if one GSE was not as aggressive in goal setting in terms of numbers of purchases, goal setting in terms of percent of portfolio would enable a more refined analysis of GSE goal setting in terms of GSE capacities. If one GSE's loan purchases went up over three years, but the other GSE's purchases was flat, the latter still could be viewed as making more of an effort. In other words, the GSE whose total purchases did not increase could still be judged more favorably if it committed to a higher percent of its portfolio for a demographic group or geographical area. The percent of portfolio standardizes and takes into account differences among GSEs in their levels of purchases as well as internal conditions.

Targets Considering Housing Stock Developments

A promising analysis in the draft GSE plans was consideration of housing stock developments. In particular, Freddie Mac considered housing stock developments in the context of identifying needs and opportunities. Freddie Mac found an estimate of the number of conversions of manufactured housing complexes into residential owned communities and developed a loan purchase objective as a percent of these conversions.[5] While one can differ as to whether Freddie Mac could have been more aggressive and aimed its loan purchase objective as a higher percent of conversions, basing its loan purchase objectives in this manner will hopefully facilitate a greater number of conversions in the future, particularly if Freddie Mac was not supporting any conversions currently. Likewise, Freddie Mac estimated the amount of annual Section 515 housing stock loss and calculated a loan purchase goal as a percent of this loss. This will hopefully decrease some of the annual housing stock loss.[6] These examples were the most

[4] Freddie Mac Plan, 36-37.
[5] Freddie Mac Plan, 27
[6] Freddie Mac plan, 44-46

prominent of the few examples of any type of needs analysis described above. The GSEs need to increase this type of analysis in their current plans and future plans.

Grants and Investments

Conservatorship constraints have made objectives related to grants and investments quite limited in Fannie Mae's and Freddie Mac's plans. The GSEs discuss re-entry into Low Income Housing Tax Credit (LIHTC) market, but seem tentative, saying they need the approval of FHFA. The objectives themselves in terms of the number of deals also seem modest. In addition, the plans do not contain any grant making. The plans occasionally point to the need for housing counseling and partnering with housing counseling organizations. However, housing counseling, if it is to be affordable for lower income clients, needs to be subsidized. Grantmaking would be very helpful, particularly for counseling agencies in underserved and distressed areas of the country such as the Colonias or Appalachia.

Manufactured Housing

NCRC urges Fannie Mae and Freddie Mac to use their Manufactured Housing plans to promote strong homeowner and tenant protections in the market, including long-term leasing, investments in manufactured housing communities, safe and sound financing as part of the chattel loan pilot program, and no restrictions on the right to sell. Both plans include crucial activities, but at times Fannie Mae and Freddie Mac fail to move beyond their current work and propose to lead the market. At other times, the plans are overly vague and do not provide goals that can be properly and readily evaluated.

Manufactured Housing Titled as Real Property

Fannie Mae and Freddie Mac each include two outreach objectives for their Manufactured Housing Titled as Real Property activity. Freddie Mac's outreach approach is more holistic, looking to the end result of reaching consumers. In contrast, Fannie Mae's approach is solely meant to engage with lenders.

Freddie Mac proposes increasing homebuyer access to education and resources in order to protect consumers and enable them to make informed choices. The goal is to provide education to at least an additional 200 consumers each year. Freddie Mac placed this objective under the "outreach" evaluation area, meaning no baseline is required according to FHFA's DTS guidance.

However, without a baseline, it is hard to properly assess this target. During the first year, Freddie Mac hopes to expand its manufactured housing pilot outside of Kentucky and add at least one lender. In order to properly assess the effectiveness of an expansion of a pilot, a baseline is needed.

Fannie Mae's outreach is meant to engage with lenders and cross-functional industry representatives in order to identify and analyze market challenges, provide information about lending products, and facilitate the delivery of loans. In each of the three years of the plan, Fannie Mae will host one manufactured housing roundtable, produce and distribute a set of educational materials, and assist lenders in meeting manufactured loan delivery requirements by engaging 25 lenders and hosting two lender webinars. Addressing lenders is a crucial aspect of outreach, as many lenders are not aware of the loan products currently available and are unable to aid consumers in using the products. However, NCRC urges Fannie Mae to additionally include outreach directly targeted at the consumer, and to include a measurable target for consumers. Fannie Mae acknowledges that the ultimate opportunity from this objective is to finance an increased number of manufactured housing mortgages secured by real estate. In order to realize this opportunity, a measurable goal of educating consumers, broken down by income groups, is necessary.

Additionally, both Fannie Mae and Freddie Mac included loan purchase objectives for this activity. NCRC considers loan purchase goals critical and commend the GSEs for taking proper attention to these goals. Of specific note for loan purchasing is Fannie Mae's development of a new loan product, MH select.[7] After establishing the pilot, Fannie Mae intends to start purchasing loans of manufactured housing titled as real property with a goal of purchasing between 250 and 750 MH Select loans in years two and three of the plan. Fannie noted that modern, high quality manufactured housing rivals, and sometimes exceeds, the construction quality of site-built homes. However, with Fannie Mae solely focusing this objective on moderate-income families, what quality of manufactured housing will be made available for lower-income families? This is meant to provide an alternative to site-built homes, but it fails to address the need for a high quality and affordable option for lower income families. Fannie should consider having separate loan purchasing goals, one for moderate-income families and for low- and very low-income families.

[7] Fannie Mae Plan, 31.

Freddie Mac's loan purchase approach is less specific than Fannie Mae's, and as it notes it is meant to be "incremental and strategic.[8]" Freddie Mac establishes a conservative 2016 baseline for its purchases of manufactured housing, stating that .32 percent of all Freddie Mac loan purchases will serve as the baseline for all three years. Rather than using an average of the previous three years, Freddie Mac uses the most recent year, which was the lowest percentage.[9] NCRC encourages Freddie Mac to be more aggressive in its manufactured loan purchasing goals. Fannie Mae's goals are between 8,250 and 10,000 loan purchases while Freddie Mac's baseline is 4,600. Narrowing the gap between the two GSEs with Freddie Mac increasing its goals will significantly benefit rural areas and other parts of the country with manufactured housing stock.

In setting a more robust target, Freddie Mac should make comparisons with the primary market and truly evaluate market opportunities outside of its own previous actions. Manufactured housing titled as real property is a critical market opportunity and need where Fannie Mae and Freddie Mac can both take a larger role and lead the market.

Manufactured Housing Titled as Chattel

Fannie Mae and Freddie Mac each focus objectives in this activity on developing a new chattel loan pilot program. Freddie Mac's plan noted that the majority of new manufactured home purchasers elect to title their property as personal, with manufactured housing titled as chattel increasing from 67 percent in 2009 to 80 percent of all manufactured housing in 2015.[10] Currently, Freddie Mac does not purchase chattel loans. Fannie Mae notes it has purchased chattel loans in the past, but has not made any purchases in the past three years.[11] As this is a significantly growing market in which neither of the GSEs currently have a footprint, NCRC is pleased to see both GSEs properly stepping into this market.

Fannie Mae, having more experience than Freddie Mac in this market, makes a more aggressive re-entrance into this market. After establishing a new pilot and receiving necessary approvals in year one, Fannie Mae intends to purchase between 350 and 425 chattel loans per year, totaling approximately $20 to $25 million. Freddie Mac similarly plans to use year one to develop a new pilot program, however, only states an intention to launch the pilot in year two. Freddie Mac makes no specific loan purchase target for this activity. This is a significant market opportunity and NCRC would encourage Freddie Mac to be more aggressive in entering the market. It is also

[8] Freddie Mac Plan, 14.
[9] Freddie Mac Plan, 15. Fannie Mae Plan, 32.
[10] Freddie Mac Plan, 11.
[11] Freddie Mac Plan, 21; Fannie Mae Plan, 38.

important for both GSEs to take the lead in establishing responsible lending standards for the chattel market that has been plagued with abuses targeted towards vulnerable consumers.

Manufactured Housing Communities

Fannie Mae and Freddie Mac have also included the regulatory activity of providing liquidity to Manufactured Housing Communities owned by a Governmental Entity, Non-profit Organization, or Residents. Both included a loan product and a loan purchase objective for this activity, but Fannie Mae also included a crucial investment objective.

Freddie Mac and Fannie Mae intend to create a pilot specifically for Resident-Owned Communities (ROC). For Freddie Mac, the first two years will involve studying and developing the pilot; by year three, Freddie Mac intends to measure ROC loan purchases. Freddie Mac noted that it believes it is the only GSE to have purchased ROC loans. Since the inception of the MHC program in 2014, Freddie Mac has purchased two ROC loans for a total of approximately $5.4 million.[12] Freddie Mac's target is either the lesser of two transactions or $5 million in year three. In contrast, Fannie Mae intends to purchase at least five loans on MHC with resident owners in year two, and at least seven in year three.[13] Freddie Mac, being the only GSE with experience in this market, should be more aggressive in setting their future goals. They appear to have infrastructure in place and should be able to increase purchases greater than two loans. Further, they should be able to increase these purchases by year two instead of waiting for year three.

In addition to creating an ROC pilot, Fannie Mae intends to review its current MHC guidelines and purchase manufactured loans secured by MHC owned by governmental entities and/or nonprofits for total of between 200 and 300 units. Additionally, Fannie Mae intends to create a pilot program for potential entity level investments in non-profit organizations, Community Development Financial Institutions (CDFI), small financial institutions, or other entities that have a major focus on MHC.[14] We would encourage Freddie Mac to follow Fannie Mae's lead under the MHC activity. Further partnerships and investments with non-profits and CDFIs would greatly assist this market in serving low- and- moderate income families by helping local organizations on the ground expand their ability to respond to community needs.

Manufactured Housing with Certain Pad Lease Protections

[12] Freddie Mac Plan, 27.
[13] Fannie Mae Plan, 43.
[14] Id.

The GSEs both acknowledged receiving significant input on the importance of tenant protections from their various outreach activities. They further noted that it appears there are no States or localities with laws that require the FHFA Pad Requirements for tenant protections.[15] To address this gap, Fannie Mae plans a product enhancement and Freddie Mac plans to create a pilot program to motivate Manufactured Housing Community (MHC) compliance with FHFA requirements.

Fannie Mae noted there is no baseline for purchasing MHCs subject to FHFA requirements as it has never done so, but Fannie Mae sets a year three goal of financing at least 250 units as well as establishing loan purchase goals for 2021-2023 plan. This shows intent on entering the market in a significant manner. Freddie Mac intends to develop a pilot based on the results of a 50-state survey, with development meant to take place in years two and three. We encourage Freddie Mac to set goals for loan purchasing in at least year three of this plan, rather than just planning on publishing a report of results from the pilot.

The GSEs have set some respectable goals around increasing their presence in the Manufactured Housing Market. However, much of their loan purchasing goals seems to be too modest, specifically in the setting of baselines and targets. We encourage the GSEs to do a more robust analysis for their baselines, and to not solely rely on their last year or the average of the past three years. They must compare themselves to the market as a whole to ensure that they are leading the market and addressing needs and opportunities.

Rural Markets

High Needs Rural Regions

Freddie Mac is more ambitious on single family purchases while Fannie Mae is more ambitious in the multifamily market in high needs rural regions. The question is to what extent can the trailing GSE increase its effort to either catch up with its counterpart or at least narrow the gap. If narrowing the gap occurs, the amount of credit for high needs rural regions could increase significantly. In single family lending, the gap between the GSEs is currently large. Freddie Mac established a baseline of 73,000 loans while Fannie Mae's is 10,000 loans.[16] Since the targets are developed in reference to the baseline, if Fannie Mae can increase its loan purchasing baseline to

[15] Fannie Mae Plan, 45-46; Freddie Mac Plan, 28.
[16] Fannie Mae Plan, 180, Freddie Mac Plan, 36.

close the gap by half or more, this could greatly benefit high needs rural regions in terms of access to credit. This large gap is surprising given that Fannie Mae is usually ahead of Freddie Mac in terms of purchase volume.

The reverse is the case in multifamily housing in high needs rural regions. Fannie Mae expresses targets for purchases of loans financing thousands of units in Middle Appalachia and Lower Mississippi while Freddie Mac has no targets for multifamily purchases in these areas.[17] Freddie Mac's draft plan does not discuss whether it will develop the capacity to purchase multifamily loans in these areas. NCRC encourages Freddie Mac to consider this critical need.

In contrast, Freddie Mac presents a plan for re-entering the LIHTC market in high needs rural regions and expresses its goals in terms of percent of the LIHTC market (5 to 15 percent of the market; higher percentages would garner higher concept scores).[18] Freddie Mac states that the LIHTC market in rural areas tends to lag urban areas since the urban markets are usually more likely to be heavily weighted on bank CRA exams. This is an astute observation. By focusing LIHTC in high needs rural areas, Freddie Mac may influence CRA examiners to pay more attention to multifamily housing finance and needs in rural areas. Hence, Fannie Mae should be also be encouraged to develop similar goal setting for re-entering the LIHTC market.

The outreach objectives are usually not developed fully, in part due to a lack of a baseline number or level of activity. Freddie Mac, for example, cites an important need to combat contract for deed arrangements in the Colonias that can often result in abuses in the home buying process.[19] Aside from some promises to partner with one to two nonprofits annually and to offer two homebuyer fairs, the outreach objectives lack specific targets. Fannie Mae, on the other hand, pledges to reach approximately 375 households with counseling in high needs rural regions. The types of counseling and whether Fannie Mae or its nonprofit partners are providing the counseling is unclear.

With a lack of baselines, it impossible to know whether the level of outreach activity for either GSE is higher or lower than in previous years. At the very least, the outreach objectives can have baselines in future DTS plans. Furthermore, the numbers of households counseled or nonprofits assisted will pale against the needs in the area. However, the GSE plans should describe an effort to determine the number of households needing assistance through some measure of need such as cost burden. The plans should then state that while numbers of households receiving direct counseling will be a fraction of those needing help, the GSE will try to promote education to a

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[17] Fannie Mae Plan, 182-183.
[18] Freddie Mac Plan, 48-49.
[19] Freddie Mac Plan, 32.

wider audience through advertising in media and providing educational materials to schools, nonprofits, or other civic institutions that reach a wider audience.

NCRC also points out that neither GSE has discussed sweat equity products that are particularly well suited for regions like the Colonias where low-income households do not have savings for downpayments but are willing to work in building or rehabbing their homes. NCRC urges the GSEs to consider sweat equity products.

High Needs Rural Populations

The goals for Native Americans are modest. Fannie Mae pledges to purchase around 300 loans for Native Americans while Freddie Mac has no loan purchase goals.[20] Fannie Mae also has objectives to purchase loans supporting 200 to 300 multifamily rental units and pledges to develop LIHTC equity investment plans for Native Americans.[21] Freddie Mac does not state any multifamily goals. Freddie Mac must be encouraged to develop purchasing goals for single and multifamily housing for Native Americans. Freddie Mac is to be commended for recognizing the need for counseling but its objectives for partnering with one to three nonprofits to provide counseling is vague and not well defined.[22] It would seem that when a GSE discusses partnering with counseling organizations they could have had discussions with these organizations before developing their plans and identify concrete objectives in terms of numbers of people reached and skills developed.

The needs of agricultural workers receive short shrift. Freddie Mac does not address the needs of this population. Fannie Mae says it will develop a LIHTC equity investment plan and implement product enhancements. It is puzzling that the GSEs do not have outreach goals to work with nonprofits serving these populations. It seems like the GSEs should conduct a needs assessment since they seem to have sparse information about this population. Through collaborations with nonprofit counseling organizations, the GSEs could learn more about this population and their needs.

Small Rural Financial Institutions

Freddie Mac and Fannie Mae have established loan purchase goals ranging from about 12,000 to 18,000 loans annually.[23] These goals would be more meaningful if the GSEs had conducted a geographical analysis of lending in rural America and had identified counties with lower than average numbers of loans and greater incidence of housing need as revealed through housing

[20] Fannie Mae Plan, 191; Freddie Mac Plan, 51-52.
[21] Fannie Mae Plan 192.
[22] Freddie Mac Plan 50.
[23] Freddie Mac Plan 54-55; Fannie Mae Plan 201.

cost burden or physical inadequacy. If the GSEs then targeted their purchases from small rural financial institutions in these high needs counties, the effort would be more successful in targeting needed increases in credit in areas most in need.

Small Multifamily Rental and Additional Activities

The goals for small multifamily rental housing are modest. Fannie Mae intends to increase its baseline of purchases (of 51) by 20 percent.[24] Freddie Mac intends to roll out a pilot program by the plan's third year.[25]

Under additional activities, Freddie Mac mentions that single family rental units are important in rural counties since about half of the rural renters use single family units. Freddie Mac proposes to establish a pilot program, but attaches no numerical goals to the pilot program.[26]

Fannie Mae does not address single family rental but cites rural LIHTC as an additional activity, pledging about 15 investments over three years. Fannie Mae should imitate Freddie Mac's single family rental pilot since single family rental is a common form of renting in rural counties.

When goals are modest, it is hard to judge how responsive they are to need without further context. Freddie Mac proposes to develop a rural multifamily mapping tool that would help identify where rural multifamily property is located.[27] This is one of the few times that a GSE says it will engage in spatial analysis as a means of aiding in goal setting. NCRC would encourage Freddie Mac to develop a more robust tool. It would be valuable to also map single family rental and single family owner units. The mapping could also include cost burden and physical inadequacy data so that purchases can be further targeted to counties most in need of affordable and suitable units. It also would be helpful in judging the degree to which modest goals in terms of purchasing are well targeted to high needs counties. Finally, it is unclear the extent to which Freddie will make this mapping tool public. NCRC encourages Freddie to make this tool widely available.

Affordable Housing Preservation

The two largest sources of multifamily housing subject to preservation are the LIHTC and the Section 8 programs.[28] It is imperative, therefore, that the GSE plans for preserving units for these programs be well developed.

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[24] Fannie Mae Plan, 203.
[25] Freddie Mac Plan, 58.
[26] Freddie Mac Plan, 63-64.
[27] Freddie Mac Plan, 57.
[28] Fannie Mae plan, 72.

LIHTC

Freddie Mac has a higher goal of purchasing 90 to 100 loans supporting LIHTC housing annually than Fannie Mae's goals of purchasing between 40 to 70 loans. An important question is whether Fannie Mae can close the gap between its targets and Freddie Mac's. Each purchased loan supports about 150 units.[29] Estimating that Fannie Mae is approximately 30 loans behind Freddie Mac, if Fannie Mae catches up to Freddie Mac, an additional 4,500 units would be supported annually by Fannie Mae's purchases. Over three years, the total additional units would be 13,500 units. A primary benefit of this plan exercise is to see if the spur of competition between the GSEs can result in more affordable housing being financed.

A sorely lacking component of the GSE plans was a lack of geographical analysis. In the context of LIHTC for low income renters, it would have been extremely beneficial if the GSEs developed priority metropolitan areas and counties based on rental vacancy rates and cost burdens for low income renters.

Freddie Mac proposes an interesting and potentially innovative gap financing program to support LIHTC deals. It notes that LIHTC subsidies may decline in future years. Banks seeking CRA credit or foundations may therefore need gap financing to make LIHTC deals viable. Freddie Mac's description of its program is vague as to exactly how this gap financing would work. Also, there are no numerical goals regarding this pilot program. More specificity in Freddie Mac's final plan would be beneficial for stakeholders.[31]

Section 8

Freddie Mac assumes the Section 8 market will contract significantly since LIHTC and other federal subsidies will decrease. Freddie Mac calculates an average for its loan purchases of the previous three years based on unit counts and then adjusts this baseline downward by 35 percent.[30] Fannie Mae, in contrast, calculates a three year average and then proposes an increase by 5 to 10 percent over three years.[31]

Part of Freddie Mac's rationale is that recent years were record years for loan purchases supporting Section 8 properties and that this volume is unlikely to be repeated. Yet, if subsidies for the Section 8 market is forecasted to be reduced in future years, it would be desirable if Freddie Mac seeks to increase its loan purchasing activity now before decreases in subsidies

[29] Calculation based on figures in Freddie Mac's plan of 13,550 units supported by 90 loans, 73. [31]
Freddie Mac Plan, 74-75.
[30] Freddie Mac Plan, 76-77.
[31] Fannie Mae Plan, 81-82.

rather than decreasing its baseline significantly. It is imperative to preserve Section 8 units now. If a more aggressive target proved to be infeasible, Freddie Mac could ask the FHFA to declare the objective to be infeasible. In contrast, Fannie Mae proposes to modestly increase its target. Like Freddie Mac, Fannie Mae should be encouraged to be more aggressive in preserving Section 8 units.

Fannie Mae expresses its targets in dollar amounts while Freddie Mac expresses targets in units. Units make more sense because it provides a direct measure of impact. Fannie Mae should also express its targets in units in its final plan.

Finally, like the LIHTC plans, both GSEs did not engage in a geographical needs analysis for Section 8. Such a geographical needs analysis would have resulted in more targeting to geographical areas with lowest vacancy rates and highest cost burdens.

Section 515

Both GSEs present targets as a percent of replacing 5 to 20 percent of the Section 515 units lost on an annual basis. Approximately, 1,800 units will be lost annually, meaning that these targets equal between 90 to 360 units.[32] The targets are based on replenishing and preserving lost stock, which is a sensible method of determining targets. A fair question, however, is whether the GSEs can be more ambitious. By the third year, for example, can they ratchet up their targets to 40 to 50 percent of annual unit loss?

Freddie Mac discusses Section 515 in both the rural and affordable housing preservation plans. It is unclear whether Freddie Mac will receive double credit. The FHFA must clarify this.

Freddie Mac presents a national map of expiring Section 515 loans, but then does not use this map to develop regional or state level targets. The FHFA should prod the GSEs to identify geographical priorities based on need.[33]

Energy Efficiency and Water Conservation – Single Family

Freddie Mac proposes objectives for single family energy efficiency that seem too modest in comparison with their product development to date. Freddie Mac says it will purchase a mortgage on a property that is being improved with energy efficiency features if an escrow account is established. On manually underwritten loans, Freddie Mac will allow lenders to use energy efficiency features as a compensating factor for higher debt-to-income ratios.[34]

[32] Freddie Mac Plan, 43-46; Fannie's plan, 83-84.
[33] Freddie Mac Plan, 45.
[34] Freddie Mac Plan, 91-92.

Despite products that seem developed, Freddie Mac says it will further study the impact of its energy efficiency initiatives and develop processes to better identify and track loan purchases associated with energy efficiency improvements. Freddie Mac does not establish any loan purchase goals for energy efficiency mortgages. Given the description of Freddie Mac's existing energy efficiency products, NCRC does not understand why loan purchase goals cannot be developed for at least one or two of the years of this plan.

Fannie Mae states that current products do not meet FHFA criteria for energy efficiency. Fannie Mae therefore intends to conduct research and develop a catalog of programs to finance energy and water efficiency improvements. Unlike Freddie Mac, Fannie Mae is confident enough by years two and three to establish loan purchase goals ranging from 50 to 200 purchases.[35]

Fannie Mae also pledges to work with counseling agencies to improve energy and water efficiency curriculum for pre-purchase and post-purchase education.[36] While this is commendable, it would also bolster the impact of the objective if the objective provided estimates on numbers of households counseled and a description of how outcomes would be measured (in some cases, it may not be possible since households are attending pre-purchase classes, but post-purchase classes can document if households implemented energy efficiency improvements). Freddie Mac should be encouraged to similarly partner with housing counseling agencies on energy efficiency initiatives. Freddie Mac says it will subsidize households' energy audits so it would seem the GSE could readily incorporate this activity into a counseling initiative.[37]

Both GSEs do not describe any geographical targeting initiatives. Geographical targeting of cold or hot regions is particularly appropriate for energy and water efficiency initiatives.

Another aspect of energy efficiency is location efficient mortgages. In the past, Fannie Mae experimented with location efficient mortgages that provided discounts or a larger loan balance if the customer resided near transit. These customers had reduced transportation expenses and so could afford more expensive homes. Also, the use of transit promotes energy conservation and pollution reduction. The GSEs should explore location efficient mortgages and include this either as an energy efficiency activity or an additional activity.

[35] Fannie Mae Plan, 99.
[36] Fannie Mae Plan, 94.
[37] Freddie Mac Plan, 91.

Energy and Water Efficiency on Multifamily Properties

Freddie Mac seems to engage in much fanfare describing its Green Advantage suite of energy and water efficiency products for multifamily housing, but then proposes modest objectives. Freddie Mac states that it purchased $3.3 billion of loans supporting 28,000 units under the Green Advantage program in first five months of the program.[38] Despite this seemingly high level of activity, Freddie Mac does not propose any loan purchase goals for multifamily energy efficiency loans. NCRC asks Freddie Mac to develop loan purchase goals for its final DTS plan.

Fannie Mae, like Freddie Mac, has existing multifamily loan programs for energy efficiency. Fannie Mae says it has purchased $4 billion in loans since 2013 that have financed energy and water efficiency improvements. It then says it has no baseline for a loan purchase goal. It commits to purchasing 25 loans in year one and increasing this volume by 25 percent in years two and three.[39] Since Fannie Mae documents a significant level of previous activity, the lack of a baseline is a puzzling omission. The other difficultly is that previous activity is expressed in dollars while the loan purchase targets are expressed in loans. NCRC maintains that Fannie Mae can improve upon this for its final DTS plan by developing a baseline and targets expressed in units.

Rental Assistance Demonstration

Both Fannie Mae and Freddie Mac included the Regulatory Activity for the HUD Rental Assistance Demonstration (RAD) program in the Affordable Housing Preservation section. However, both stressed the unpredictable future of this program; the GSEs each set modest loan purchase goals due to that fact. Fannie Mae's purchasing goal is to purchase a minimum of three RAD loans in each of the three years under the plans, but they specifically noted this is assuming the RAD program continues to be funded and supported by Federal Housing Administration (FHA). The baseline use was an average of the three preceding years, which was determined to be one loan.[40]

Freddie Mac analyzed the market and determined a separate baseline/target for year one of the plan and years two and three of the plan. Year one is a baseline of 550 units or three transactions and years two and three share a baseline of 250 units or two transactions.[41] In determining this baseline, Freddie Mac stated that it predicts RAD impacting significantly fewer units per year

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[38] Freddie Mac Plan, 91.

[39] Fannie Mae Plan, 90.

[40] Fannie Mae Plan, 105-106.

[41] Freddie Mac Plan, 81.

over the next three years. Freddie Mac's previous three years showed three loans in 2014, 12 in 2015, and five in 2016.

We encourage Fannie Mae, like Freddie Mac, to put their baselines and targets in terms of units as well as loans. This will ease the evaluation process and allow for a direct comparison of the two plans. We encourage Freddie Mac, at a minimum, to set a purchasing goal to maintain constant purchasing levels during the three years. This would be a conservative way to account for the decreased impact of RAD but still encourage Freddie Mac to finance RAD units.

Section 202

Only Fannie Mae included the statutory activity of the Supportive Housing Program for the elderly under Section 202 of the Housing Act of 1959. It included objectives of considering underwriting changes as well as purchasing loans.[42] For years two and three of the plan, Fannie Mae set a goal of purchasing eight to ten Section 202 loans. Fannie Mae specified that there is no baseline, because while they have refinanced Section 202 properties in the past, these loan types were not tracked rigorously. NCRC encourages Fannie Mae to improve the tracking and baseline setting for Section 202 loan purchases.

NCRC encourages Freddie Mac to consider this statutory activity as well. With an expected 72 million older adults living in the United States by 2030[43], the need for proper, affordable housing for the elderly is necessary now more than ever. Fannie Mae stated that its estimate for this market opportunity is based on the fact, "that between 2017 and 2021, the total maturing debt on direct loan Section 202 properties amounts to nearly $210,000,000 on approximately 27,600 units."[46] This is a large and imperative market opportunity where both Freddie Mac and Fannie Mae can act more aggressively. It would seem that loan purchases targets can and must be in double digits instead of single digits.

Comparable State or Local Affordable Housing Programs

Another statutory goal included by Fannie Mae but not by Freddie Mac is consideration of other comparable state or local affordable housing programs. Fannie Mae included one objective that serves low- and very low- income families for purchases of loans secured by properties of local

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[42] Fannie Mae Plan, 82-83.
[43] *The State of Aging and Health in America* (2013)
[46] Fannie Mae Plan, 83.

multifamily affordable housing (MAH) programs.[44] Fannie Mae's goal is to purchase between 10 and 15 loans secured by properties under Fannie Mae approved State and Local Programs in years two and three. This activity fosters more partnerships as well as develops a more robust knowledge of this market.

Fannie Mae, throughout its plan, sets goals to work with state and local programs more than Freddie Mac, including investing in CDFIs and non-profits for manufactured housing. These partnerships are crucial to providing safe, sound, and affordable housing for low-income families. We therefore encourage Freddie Mac to increase activities involving such partnerships, including considering comparable state and local affordable housing programs.

Small Multifamily Properties

Fannie Mae's plan noted that the market for financing small multifamily rental properties by institutions with assets less than $10 billion exists, but there is a significant lack of data on these financial institutions. Therefore, the parameters of the market cannot be reasonably established.[45] Freddie Mac discussed the important role CDFIs and community banks serve in this market, funding these smaller properties which account for one-third of the rental housing in the U.S.[46] Freddie Mac included four objectives for this activity in comparison to Fannie's one.

Both GSEs stressed the significant opportunity for them to provide liquidity in this market. By year three of its plan, Fannie Mae intends to purchase 20 to 30 small affordable loans from institutions with $10 billion or less. Fannie Mae stated that it had no baseline because that information is not currently tracked. Freddie Mac intends to provide liquidity by creating new offerings for small balance loan pool (SBL) securitization, for SBL pool credit enhancement, and for SBL participation certificate securitization.[47] Additionally, Freddie Mac intends to purchase or guaranty SBLs from small financial institutions.

Unlike Fannie Mae, Freddie Mac developed a baseline for its purchases of SBL based off the fact that it securitized three sample DTS qualifying SBL pools in 2015 and 2016. It established a baseline and target as the lesser of one transaction or $100 million in year three. It is unclear if this was only based of institutions with assets of $10 billion or less, and is difficult to directly compare with Fannie Mae's goal as it is unclear how many loans would be in the pool. We also

[44] Fannie Mae Plan, 86-87.
[45] Fannie Mae Plan, 65.
[46] Freddie Mac Plan, 86.
[47] Id.

encourage Freddie Mac to describe its goals by number of loans as Fannie has. We encourage both GSEs to also report on how many units their loan purchases will support. Both GSEs should also continue sizing the market and determine geographical priorities. This is a crucial opportunity for both GSEs to act on an important market, and data enhancements are imperative for doing so properly.

Shared Equity Programs

Shared equity programs enable individuals and families to purchase homes below market value, helping to bridge the gap in housing prices and affordability for moderate- and low-income borrowers.[48] Both GSEs acknowledge shared equity programs can be significant tools in promoting affordable and sustainable homeownership. Fannie Mae 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.[49] Fannie Mae 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. NCRC encourages 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 objectives are mainly research and outreach based. Freddie Mac's third objective is under a loan product evaluation area, but it is confined to the development of comprehensive underwriting guidelines to facilitate originations of loans under shared equity programs; no loan purchasing goals even for a pilot are included.[50] NCRC encourages Freddie Mac to expeditiously create loan purchase objectives. The wealth gap is growing, and more direct action is necessary. The development of a pilot program specifically addressing shared equity would help address the twin concerns of wealth disparities and affordability.

Purchase and Rehabilitation of Distressed Properties

Only Fannie Mae included the regulatory activity of the purchase or rehabilitation of distressed properties. This activity included objectives for improving the HomeStyle Renovation loan product and increasing purchases of those loans. In year one, Fannie Mae plans to purchase

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[48] Fannie Mae Plan, 66; Freddie Mac Plan, 70.
[49] Fannie Mae Plan, 103.
[50] Freddie Mac Plan, 102.

between 150 and 200 HomeStyle Renovation mortgage loans and by year three, between 250 and 300 HomeStyle Renovation loans.[51] Fannie Mae stated that at the end of 2016 there were an estimated 90,000 distressed properties listed as a short sale or being acquired through the foreclosure process.[52] Fannie Mae noted that this was a steep decrease from previous years, but still signifies a significant market opportunity and need. Additionally, the use of a HomeStyle loan helps provide borrowers with better interest rates and more stable financing. As the effects of the foreclosure crisis are still being felt, specifically among low-income families, programs like this are critical. Therefore, we encourage Freddie Mac to also consider this activity. NCRC also encourages both GSEs to develop geographical priorities since the foreclosure crisis had uneven impacts across the country, with some regions severely afflicted and others not significantly impacted.

Workforce Equity

Fannie Mae included a unique additional activity titled Workforce Equity. The goal of this program is, "To bring new capital into improving and preserving affordable housing for workforce families, and to address the growing affordability gap."[53] Fannie Mae specifically noted that, from American Community Survey data, the share of rental workforce families that are cost burdened more than doubled from 2005 to 2015. Fannie Mae specifically noted this program would address moderate-income families that are often overlooked by LIHTC programs. The affordability gap is a problem that shows no sign of going away in the near future, and we commend Fannie Mae for addressing this overlooked problem, but we also encourage Fannie Mae to consider extending this program to low-income families to some extent in order to address low-income families that may also be overlooked by LIHTC income targeting.

Statutory and Regulatory Activities Not Undertaken by either GSE

The Affordable Housing Preservation rule includes a number of regulatory and statutory activities that do not have to be considered in GSE underserved market plans. Specific activities that neither GSE considered include HUD's Choice Neighborhoods Program.

HUD's Choice Neighborhoods program supports locally driven strategies to address struggling neighborhoods with distressed public or HUD-assisted housing through a comprehensive

[51] Fannie Mae Plan, 111.
[52] Fannie Mae Plan, 68.
[53] Fannie Mae Plan, 114.

approach to neighborhood transformation. This program helps catalyze critical neighborhood programs.[54]

Other programs not addressed by either GSE include Section 811 Housing for Persons with Disabilities, which assists low-income individuals with significant long-term disabilities to live independently in their communities, and HUD's Homelessness Assistance program. We encourage the GSEs to help finance these important programs.

Residential Economic Diversity (RED)

NCRC is pleased that Fannie Mae enacted an objective for RED. Freddie Mac should do the same since income segregation is increasing in the United States. Fannie Mae is adopting a proactive approach. The GSE will discuss LIHTC deals that can qualify as RED with seven lenders with which it does business. It will then track LIHTC deals to see if they qualify as RED. Lending institutions must be encouraged to seek pro-integrative projects. The bank regulatory agencies have adopted Community Reinvestment Act (CRA) interagency guidance that encourages banks to engage in mixed income housing and other integrative projects in gentrifying neighborhoods but this guidance is rarely implemented.[58] Perhaps, the GSEs can adopt a leadership role and encourage banks and the bank regulatory agencies to work with them on economic diversity projects.

Fannie Mae also acknowledges the role of state and local agencies in economic diversity. The GSE established goals for purchasing loans of state and local programs that qualify as RED. Fannie Mae should go one step further. It should also participate in the planning process of state or local agencies in developing and implementing integration strategies contained in Assessment of Fair Housing (AFH) plans per the Department of Housing and Urban Development's Affirmatively Furthering Fair Housing (AFFH) requirement. Banks should also be involved in AFH plan development. Synergies and innovations for integration can be achieved if public agencies, banks, and GSEs collaborate in a proactive manner.

Fannie Mae proposes loan purchase objectives of 8 RED loans in year two of the plan and 14 RED loans in year three.[59] Since these are loans purchases supporting LIHTC projects, it makes

[54] Department of Housing and Urban Development; https://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/cn

[58] National Community Reinvestment Coalition, The Community Reinvestment Act: How CRA Can Promote Integration and Prevent Displacement in Gentrifying Neighborhoods, December 2016, http://www.ncrc.org/images/cra_in_gentrifying_neighborhoods_web.pdf

[59] Fannie Mae, 117.

sense to compute a ratio of RED LIHTC as a percent of total LIHTC loan purchases. Fannie Mae had established a range of 40 to 70 LIHTC loan purchases on an annual basis. Fourteen RED LIHTC loan purchases would represent about 35 percent of LIHTC loan purchases if Fannie Mae is closer to 40 purchases and 20 percent if Fannie Mae is closer to 70 purchases. NCRC encourages Fannie Mae to be closer to 70 LIHTC loan purchases overall and to aim for a RED subgoal of 35 percent or higher. In future years, it would be desirable if half of the LIHTC loan purchases were RED and supported integration.

Conclusion

The DTS plans are in need of significant general and specific improvements. The objectives need to be more rigorous and include comparisons with the primary market so that the public can determine if the GSEs are leading or trailing the market. Needs analysis and geographical targeting are needed in the plans. While NCRC acknowledges innovative aspects of the GSE DTS plans, NCRC proposes a number of specific improvements in each of the three markets in the GSE plans.