



July 10, 2017

Federal Housing Finance Agency
Office of General Counsel
400 7th Street SW
Eighth Floor
Washington, DC 20219

Re: Enterprise Proposed Duty to Serve Plans

The National Housing Resource Center (NHRC) is a policy organization for the nonprofit housing counseling industry. NHRC believes that housing counseling provided by agencies that are approved by the Department of Housing and Urban Development (HUD) can and should play an important role in Fannie Mae and Freddie Mac (collectively, the “Enterprises”) meeting their duty to serve underserved markets and appreciates the opportunity to comment on the Enterprises’ proposed plans to do so.

Housing counseling that is provided by HUD-approved housing counseling agencies has been consistently shown to prepare homebuyers for responsible homeownership. HUD-approved counseling provides one-on-one services that takes into account each family’s unique circumstances. A counselor working with a family who are considering purchasing a home will look at household income, debt, credit and other factors in order to prepare the family for successful homeownership. The counselor will also help the family to better understand the homebuying process, whether they may qualify for borrower assistance such as downpayment assistance, and different mortgage products. The result of this extensive one-on-one counseling is homeowners who studies have consistently shown are better prepared for success. One 2013 study, for example, found that borrowers who received pre-purchase counseling and education were one-third less likely to become seriously delinquent than similar borrowers who did not receive counseling.¹

HUD-approved counseling agencies also work predominantly with the very low-, low-, and moderate-income households who are targeted by the Duty to Serve rule and the Enterprises’ proposed plans. In the first quarter of fiscal year 2016, for example, 88 percent of all counseling clients had household incomes at or below 100 percent of area median income (AMI).² Furthermore, 17.5 percent of all counseling clients in that period lived in rural areas.

¹ Neil S. Mayer & Kenneth Temkin, *Pre-Purchase Counseling Impacts on Mortgage Performance: Empirical Analysis of NeighborWorks America’s Experience* (March 7, 2013).

² U.S. Dep’t of Hous. And Urb. Dev., *Housing Counseling HUD-9902 Quarterly Report, FY 2016 First Quarter Report* (available online at <https://www.hudexchange.info/programs/housing-counseling/9902-quarterly-reports/>)

Both Fannie Mae and Freddie Mac recognize the value of housing counseling in the proposed plans. However, NHRC believes that both can go further to better utilize the value that housing counseling can bring to help meet the housing needs of these currently underserved markets.

Fannie Mae Duty to Serve Underserved Markets Plan

I. Proposal to Establish a Chattel Loan Manufactured Housing Pilot

NHRC supports and encourages Fannie Mae's proposal to establish a pilot program to begin purchasing manufactured housing that is titled as chattel. To ensure that borrowers who purchase manufactured homes that are titled as chattel fully understand the terms of their purchase, NHRC believes that pre-purchase housing counseling should be a required element of the proposed pilot program.

Manufactured housing is generally a much more affordable alternative to site-built housing, with the average cost of manufactured home being \$68,000 as compared to \$276,284 for a site-built home. However, 80 percent of new manufactured homes, are titled as "chattel," or personal property, as opposed to real property, and generally have relatively few consumer protections and relatively worse loan terms. For example, "chattel loans have had higher interest rates (range from 50 to 500 basis points higher) and 'APRs on chattel loans are about 150 basis points higher on average than for mortgages on manufactured homes' despite the lack of economically substantial differences in income, debt-to-income ratios, credits scores, and loan-to-value ratios with real-estate-titled borrowers."³ Additionally, many federal consumer protection laws that apply to manufactured housing that is titled as real property do not apply to chattel-titled manufactured housing.

Pre-purchase housing counseling should be a requirement for Fannie Mae's proposed chattel loan manufactured housing pilot program. Pre-purchase counseling will ensure that prospective borrowers understand the terms of their chattel loan and the relative differences with respect to a real property loan. In addition to educating borrowers on the distinctions between chattel and real property manufactured housing loans, requiring pre-purchase counseling will help to ensure the safety and soundness of Fannie Mae's proposed pilot program.

II. Proposal to Partner with Counseling Agency Networks to Incorporate Energy and Water Efficiency into Pre- and Post-Purchase Counseling

NHRC supports Fannie Mae's proposal to partner with counseling agency networks to incorporate energy and water efficiency education into pre- and post-purchase counseling. However, NHRC believes Fannie Mae's proposal would be more effective if it was expanded beyond the current proposal.

In its proposed plan, Fannie Mae proposes partnering with two counseling agency networks in year one to enhance and incorporate energy and water efficiency education into pre- and post-purchase counseling. Fannie Mae does not, however, propose to continue this effort in years two and three of the plan.

³ Federal Housing Finance Agency, Enterprise Duty to Serve Underserved Markets, Proposed Rule, 80 Fed. Reg. 79, 188 (Dec. 18, 2015) (codified at 12 C.F.R. Pt. 1282) (internal citation omitted).

Better incorporating energy and water efficiency into pre- and post-purchase counseling will provide valuable information to the very low-, low-, and moderate-income households that receive pre- and post-purchase counseling. Increased awareness of energy efficiency tax credits, for example, will allow many more housing counseling clients to take advantage of savings they may otherwise be unaware of. To ensure the effectiveness of this proposal, Fannie Mae should expand the program to include both more counseling agency networks and to include years two and three of the plan.

III. Proposal to Increase Access to Financing for Shared Equity Programs and to Purchase Shared Equity Mortgage Loans

Shared equity mortgage loan programs provide the opportunity for homeownership for very low-, low-, and moderate-income households who may otherwise be unable. NHRC applauds Fannie Mae's proposed plan to increase access to shared equity financing by simplifying loan requirements and to purchase additional shared equity mortgage loans. However, NHRC also believes that pre-purchase counseling should be a component of any shared equity mortgage product.

Shared equity mortgage products allow households to purchase a home with lower upfront costs than with a traditional mortgage. For many households, this is a means to achieve homeownership that may otherwise be inaccessible. However, as with all low-downpayment lending, pre-purchase counseling is critical to ensuring successful homeownership. There is more risk inherent in low-downpayment lending and shared equity programs may not be the best option, even for households who qualify. Working with a HUD-approved counseling agency can help to ensure that prospective homebuyers are well-prepared for homeownership. Counselors can also work with households who are considering a shared equity loan if there are better mortgage products available for which they may qualify. In the context of shared equity lending, pre-purchase counseling is especially important as borrowers need to understand the unique characteristics of a shared equity loan, including any restrictions that may be in place.

IV. Proposal to Engage with Counseling Organizations to Increase Homeownership Opportunities in High-Needs Rural Regions

NHRC supports Fannie Mae's proposal to engage with counseling agencies to help increase homeownership in high needs rural regions. The Duty to Serve rule identifies high-needs rural regions as Middle Appalachia, the Lower Mississippi Delta region, colonias, and other counties with persistent poverty. HUD-approved non-profit counseling agencies are well situated to serve these communities and should be an important part of any plan to increase homeownership in a safe and sound manner. Fannie Mae's proposal is relatively modest, though, and NHRC believes the plan would better serve the needs of these underserved areas by being more ambitious. Specifically, the proposal calls for engaging 25 households in year one and 50 households in years two and three. NHRC believes Fannie should expand its proposal to reach more households in these communities.

There is a strong presence of HUD-approved counseling agencies in some of the targeted high-needs rural regions. In eastern Kentucky, for example, which makes up the bulk of the Middle Appalachia region, there are seven HUD-approved counseling agencies. Partnering with these agencies on outreach and marketing will be a very efficient and effective way to help increase homeownership in these

underserved rural regions in a safe and sound manner. Fannie Mae's proposal of engaging 125 households over the three-year period is overly modest and should be expanded upon.

NHRC suggests that Fannie Mae begin by identifying which HUD-approved counseling agencies serve the high-needs rural regions that are included in the Duty to Serve rule and engage directly with those agencies to identify an appropriate target number of households to engage with. Given appropriate support from Fannie Mae, these agencies should be able to engage with a significantly higher number of households than Fannie Mae has targeted in its proposal.

V. **Proposal to Increase Access to Financial Counseling for Households in High-Needs Rural Regions and Among High-Needs Rural Populations**

In its proposed plan, Fannie Mae points out that homeownership is less costly than rental housing in many parts of the high-needs rural regions and for high-needs rural populations and that improved credit could make homeownership achievable for many of these households. NHRC supports Fannie Mae's proposal to expand access to financial counseling in these areas and believes Fannie Mae should partner with local and national HUD-approved housing counseling agencies to accomplish it.

There are a number of challenges to providing financial and housing counseling to households in high-needs rural areas and among high-needs rural populations. Often the most difficult challenge is that there is not a counseling agency that is geographically close enough for the household. As has been noted, however, in some high-needs rural areas, such as eastern Kentucky, there are a large number of HUD-approved counseling agencies that can provide financial and pre-purchase counseling. In these areas, Fannie Mae should prioritize partnering with the local agencies to increase awareness of counseling services and to expand local counseling capacity.

In some high needs-rural areas, however, such as parts of the Lower Mississippi Delta, there is a lack of local HUD-approved counseling agencies that are able to provide financial and pre-purchase counseling. In these areas, Fannie Mae should partner with providers or internet- and phone-based counseling to provide financial and pre-purchase counseling that meets HUD requirements. Again, marketing and outreach on the availability of counseling in these high-needs areas should be prioritized, along with expanding the capacity of internet- and phone-based counseling agencies to meet the local need.

Additionally, in high-needs rural areas where there is a lack of adequate local capacity to provide one-on-one counseling, Fannie Mae should work with and provide resources to HUD-approved agencies to expand local capacity. For example, Fannie could partner with HUD-approved agencies in Mississippi and Louisiana to expand their presence into the Lower Mississippi Delta region.

Freddie Mac Duty to Serve Proposed Plan

I. **Proposal to Increase Access to Education and Resources for Borrowers of Loans for Manufactured Housing Titled as Real Property**

NHRC believes that Freddie Mac's proposal with respect to better preparing borrowers of real property manufactured housing loans would be more effective if the focus was on expanding access to counseling

that is provided by HUD-approved counseling agencies. There is a significant difference between homebuyer education, which is not tailored to the individual circumstances of the borrower, and counseling, which does look at individual factors, such as household income and credit. Similarly, there is a significant difference between counseling that is provided by a HUD-approved agency, which is subject to important quality standards, such as the pending certification rule, and counseling that is provided by an organization that is not HUD-certified.

Throughout its proposal, Freddie Mac expresses its support for homebuyer education. While NHRC agrees that there is value in homebuyer education, we believe that Freddie Mac's proposal would much better meet the needs of the underserved markets that it is focused on by encouraging counseling that is provided by HUD-approved agencies. Additionally, Freddie Mac accepts counseling and education that is provided by for-profit organizations, such as private mortgage insurers, in connection with certain mortgage products. Going beyond the Duty to Serve plan, Freddie should require that all counseling be provided by HUD-approved counseling agencies.

NHRC encourages Freddie Mac's collaboration with Next Step and eHome America to develop education materials for prospective manufactured housing borrowers. Freddie Mac should continue to develop these materials, with a focus on one-on-one counseling, as opposed to general educational materials. Once these materials are developed, Freddie Mac should partner with local, HUD-approved counseling agencies in the states with large manufactured housing populations to market pre-purchase manufactured housing counseling and to expand local capacity to deliver this counseling.

II. Chattel Loan-Titled Manufactured Housing Proposal

As with its proposal with respect to real property-titled manufactured housing, Freddie Mac proposes to increase access to homebuyer education in connection with its proposed pilot chattel loan manufactured housing program. NHRC believes pre-purchase counseling that is provided by a HUD-approved agency should be a required component of any such pilot program. It is especially important that prospective borrowers of chattel manufactured housing loans fully understand the differences, and potential disadvantages, between chattel and real property loans and working one-on-one with a HUD-approved counseling agency is the best way to ensure the household is making a well-educated determination.

III. Proposal to Increase Access to Education and Resources in High-Needs Rural Regions

Freddie Mac proposes to increase access to education and resources in high-needs rural regions. As with its similar proposals with respect to manufactured housing, NHRC believes Freddie Mac should focus on increasing access to one-on-one counseling that is provided by HUD-approved counseling agencies, not group education classes. Where there is local capacity, as there is in a number of high-needs rural areas, Freddie Mac should partner with local agencies to improve their outreach and marketing capacity and to expand service capacity.

As with the Fannie Mac proposal, NHRC encourages Freddie Mac to identify which HUD-approved counseling agencies are serving the targeted high-needs rural regions. Freddie Mac should partner with

these agencies to improve their marketing and outreach capacity and to build their service-delivery capacity.

In areas where there is insufficient local counseling capacity, Freddie Mac should partner with internet- and phone-based counseling providers. In these areas, it will also be important for Freddie Mac to focus on marketing and outreach in order to ensure households in these high-needs rural areas are aware of the availability of counseling services.

IV. Proposal to Increase Homebuyer Access to Education and Resources for Members of a Federally Recognized Indian Tribe in Indian Areas

As with Freddie Mac's other proposals to expand access to education and resources for certain populations and in certain areas, NHRC believes that Freddie Mac should focus on expanding access to counseling that is provided by HUD-approved counseling agencies for members of a federally-recognized Indian tribe in Indian areas.

Additionally, Freddie Mac does not propose expanding access for farmworkers, the other group that is included under the category of high-needs rural populations. NHRC encourages Freddie Mac to expand its efforts to include expanding access to homebuyer counseling that is provided by a HUD-approved agency for farmworkers.

V. Additional Comments

In addition to Freddie Mac's proposals for including housing counseling in its Duty to Serve proposal, NHRC believes Freddie Mac should include a proposal to work with HUD-approved housing counseling agencies to incorporate energy and water efficiency into pre- and post-purchase counseling, as Fannie Mae included in its plan. The cost saving benefits of improved energy and water efficiency can be especially valuable for very-low, low-, and moderate-income households. Better incorporating awareness of programs such as energy efficiency tax credits into pre- and post-purchase counseling would be extremely useful and Freddie Mac should work with local counseling agencies to do so.