



July 10, 2017

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Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

RE: ANDP Comment on Fannie Mae and Freddie Mac Proposed Underserved Markets Plans for Duty to Serve

To Whom It May Concern:

Thank you for the opportunity to provide comment on Fannie Mae and Freddie Mac's "Duty to Serve" obligations. We appreciate your commitment to seeking the creativity, innovation and partnerships that are critical to better supporting underserved markets. The Atlanta Neighborhood Development Partnership (ANDP) is providing specific comments on the GSE's provision of capital for single-family rental homes and hybrid-tenure single-family rental models, which result in conversion of a portion of the single-family housing stock into homeownership units over time.

ANDP is among the largest -- if not the largest -- non-profit redevelopers of single-family homes in the Southeast. The organization has impacted more than 450 single-family homes since 2008. While we are not in the habit of providing comment on "Duty to Serve" plans, we feel compelled to share our unique perspective from extensive experience in stabilizing distressed and underserved single-family neighborhoods in metro Atlanta.

ANDP: Reinvestment through Single-Family Affordable Homeownership

ANDP is a 25-year, non-profit affordable housing organization which develops and preserves multi-family and single-family rental properties, as well as single-family for-sale homes. Our subsidiary Community Development Financial Institution (CDFI), the ANDP Loan Fund, provides development capital for the preservation and new construction of affordable single-family and multi-family properties.

In early 2008, ANDP's Board of Directors voted unanimously to focus our work on metro Atlanta's devastating foreclosure crisis and has remained focus on the continued alarming rates of negative equity, which are largely centered in predominantly African American neighborhoods south of U.S. Interstate-20. According to "Underwater America," a 2014 report published by the Haas Institute at U.C. Berkeley, nine of the top ten most underwater zip codes in the country were located in metro Atlanta.



Ten years after the foreclosure crisis, there are still 1.5 million metro Atlanta residents living in neighborhoods that are significantly underwater.

Since 2008, ANDP has been able to scale its annual single-family rehabilitation production from 6 units to an anticipated annual rate of 70 units in the coming year. Research conducted by ANDP in conjunction with graduate students at the Georgia Institute of Technology and the Douglas County and DeKalb County Tax Assessors Offices reveal that these investments in foreclosure-impacted neighborhoods resulted in a significant increase in overall neighborhood values. In Douglas County, ANDP's investment of \$2.3 million in home rehab of 53 scattered-site single-family homes resold to owner occupants resulted in an increase of \$14.6 million in value for surrounding properties, a multiplying impact of more than six to one. In DeKalb County, which had been more heavily hit by foreclosures, the multiplying increase was 15 to one.

ANDP is successfully utilizing the FHFA's Neighborhood Stabilization Initiative (NSI) and the FHA's non-profit first-look program to acquire homes at a discount in order to rehab and sell the homes to a new income-qualified homeowner. Nearly 65% of our sales have been to households earning 80% or below Area Median Income (AMI) and 100% of sales have been to households earning below 120% of AMI. The average mortgage payment for our homes has been approximately \$675. Many of our owners had been renting single-family homes and purchasing an affordable, quality rehabbed home from ANDP cut their monthly housing payment by 30 to 40%. In metro Atlanta, the cost of monthly mortgage payments is an often much lower burden than the cost of rental payments. Typical mortgage payments would require 21.3% of the median household's monthly income, 5.5% less than the national average (JCHS 2017).

ANDP has utilized small general contractors, as well as larger operators, to help facilitate rehabs and sales which meet both ANDP's mission goals and return ANDP's initial capital investments. Some of our larger partners have managed single-family rental investment capital for scaled organizations such as Invitation Homes, Colony, and Waypoint.

The lack of quality rehabbed homes for sale through MLS is a major factor in slow market and homeownership recovery in minority underwater neighborhoods. The 2017 State of the Nation's Housing Report by the Joint Center for Housing Studies at Harvard reveals the alarming statistic that African American homebuyers in metro Atlanta have declined by half from 2005 to 2015. ANDP and other non-profits are working to scale our efforts to provide more homeownership units and bolster neighborhood recovery. Access to capital supporting hybrid-tenure models, which initially operate as rental but provide pathways to return the home to homeowner occupancy, is desperately needed.

Since 2009, ANDP has rehabbed 435 for-sale single-family homes and rehabbed another 25 homes for single-family rental. Approximately a quarter of these rental homes have been returned to use by homeowners. Going forward, ANDP seeks to build an initial portfolio of 100 single-family rental properties. Our goal is to return 50 or more of the homes to homeownership over a 7 to 10 year period. Some would be converted through a credit repair and lease purchase program, while others would be sold to a new homebuyer as initial and secondary renters move out.



Metro Atlanta Housing Market and the Demand for Hybrid-Tenure

Aside from some gentrifying neighborhoods close to downtown Atlanta, private investors are acquiring single-family homes mostly for rental, and few for-sale homes are being rehabilitated or constructed. Despite constrained mortgage credit, we are successful in selling our quality rehabbed homes to our target population. Access to capital and competition with private investors pursuing long-term rental are the major impediments to ANDP's efforts to restore lost homeownership and wealth in largely minority, disinvested, and underwater neighborhoods at a larger scale.

Scaled single-family rental is a new product that is not entirely aligned with either the GSE's single-family or multi-family lending practices. From a community standpoint, single-family rental has more in common with the GSE's mortgage business than with the GSE's multifamily business. Homes are individual assets in individual neighborhoods. Single-family rental homes help set overall neighborhood value comparables. It is concerning that Fannie Mae and Freddie Mac are approaching single-family rental primarily from a multifamily perspective. In markets like metro Atlanta, there has been close market interplay within neighborhoods between single-family rental and single-family homeownership. Without a healthy balance of each, neighborhoods suffer. Single-family homes have traditionally flowed back and forth between tenures as economic value and credit conditions have changed. However, with the advent of scaled, national single-family rental operators, homes that were occupied by resident owners in 2007 are now locked into rental tenure and unlikely to return to homeownership in the foreseeable future.

Invitation Homes, the group initially funded by Fannie Mae, built a large portfolio of homes throughout Metro Atlanta. In 2015, Invitation Homes chose to sell a 1,325 home sub-portfolio in Clayton County in south Metro Atlanta. Nearly a third of all single-family homes in Clayton County are occupied by renters and half of the county's single-family rental properties are owned by large, non-local operators (AJC 2016). Neighborhood value decline or stagnation associated with large bulk sale acquisitions negatively impacts area homeowners and their mortgage holders, including Fannie Mae, Freddie Mac and FHA.

Clayton County has been the slowest metro County to recover from the foreclosure crisis. Home price appreciation has been flat in large part due to the fact that the value of any home improvements for most rental homes is not captured in the market and with a third of the housing stock locked in rental tenure, the market has essentially been stunted.

ANDP inquired about purchasing a small number of homes that we would return to homeownership but were told that the Clayton County sub-portfolio would likely be sold in bulk. All 1,325 homes were sold to Altisource Residential, another single-family rental company, and remain locked out of homeownership. *The prepayment penalties included in the Fannie Mae Invitation Homes demonstration loan further prevent large investors from selling individual homes to new owners or mission-driven nonprofits.*



If there is a need for the GSEs to provide capital and/or guarantees for single-family rental, they should first pursue it through expanding the 10 loan limit for single-family investments or by creating a new third channel outside of the two existing single-family and multi-family channels. Because capital flows and low-appraised values for post-rehabbed properties now favor single-family rental in metro Atlanta's most underwater neighborhoods, only a small percentage of first look homes can be acquired, rehabbed, and sold without subsidy gaps.

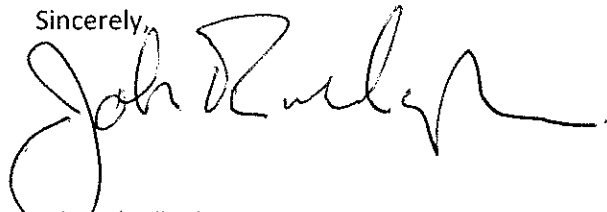
FHA's 203K and 203B production for HUD-approved nonprofits could meet this need on paper. Unfortunately, the product is not currently being utilized anywhere in the country because of artificially low loan limits and a lack of lenders willing to originate the product.

Currently, nonprofits are not eligible to utilize Fannie Mae and Freddie Mac's 1-10 home investor product. *Allowing strong, capable nonprofits to access GSE mortgage products at appropriate scale would help counterbalance a small portion of the negative impacts of sub-portfolio sales and acquisitions being utilized by larger single-family investors.*

In summary, lessons learned from ANDP's long-term efforts to stabilize foreclosure impacted neighborhoods have led me to make the following recommendations:

- (1) Expand the GSE's 1-10 rental product limits. Single mortgages are more likely to allow homes to return to homeownership over time.
- (2) Consider a new hybrid channel to deliver loans for single-family rental outside of existing Fannie Mae and Freddie Mac single-family and multifamily structures.
- (3) Minimize use of bulk sales, prepayment penalties, and other single-family features which lock homes into long-term rental status and do not allow market flows back to ownership tenure.
- (4) Develop data on tenure flows from rental to homeownership with existing 1-10 market and any newly developed product.
- (5) Offer nonprofit product, prioritizing mission-driven outcomes including - but not limited to - the restoration of the single-family rental stock to homeownership over time.
- (6) Ensure use of products aligns with goals of affordability, investment in underserved neighborhoods, and racial equity.

Sincerely,



John O'Callaghan
President & CEO

Atlanta Neighborhood Development Partnership

