GROUNDED SOLUTIONS NETWORK
strong communities from the ground up

PO Box 42255
Portland, OR 97242

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Mr. Mel Watt, Esq.
Director
Federal Housing Finance Agency
400 7th St SW
Washington, DC 20024

RE: Comments on Fannie Mae's and Freddie Mac's Underserved Market Plans 2018 - 2020

Dear Director Watt & your esteemed colleagues,

On behalf of Grounded Solutions Network, I write to share our comments on Fannie Mae's and Freddie Mac's proposed Underserved Market Plan (hereinafter "Plan") to fulfill obligations under the duty-to-serve rule. Our comments will predominantly focus upon the regulatory activity "shared equity programs for affordable housing preservation" and for optimizing activities proposed under the "affordable housing preservation" undeserved market area.

While areas for improvement are described below, we would first like to thank Fannie Mae and Freddie Mac for being strong partners to Grounded Solutions Network and to shared equity homeownership programs. Fannie Mae has really led the way for shared equity homebuyers to be able to access the secondary market and conventional mortgage loans. Freddie Mac continues to express a growing interest in supporting more of the market and helping the field to grow through innovation. Representatives from both Enterprises have been proactive, accessible collaborators who have expressed their commitments to improving access to mortgage financing for buyers of shared equity homes. For that, we are grateful and enthusiastic about working with Fannie Mae and Freddie Mac on their final Plans.

About Grounded Solutions Network

Grounded Solutions Network supports strong communities from the ground up. We are a national nonprofit membership organization of over 170 community land trusts, inclusionary housing programs, and nonprofits that support or provide affordable housing that lasts. Oftentimes, these housing models are referred to as "permanently affordable housing" or "shared equity homeownership." We provide our members with training, technical assistance, policy and program design, resources, research, and advocacy. Grounded Solutions Network champions evidence-based policies and strategies that work. We promote housing solutions that will stay affordable for generations so communities can stabilize and strengthen their foundation, for good.

General Comments for FHFA

We want to acknowledge the incredible undertaking that is being asked of the Enterprises to increase access to financing for underserved markets of lower income households while concurrently being constrained on their portfolio capacity. Without increased capacity to portfolio loans and evaluate performance of portfolio product, it is much harder for the Enterprises to innovate. We request that FHFA genuinely addresses this challenge so that the Enterprises may meaningfully serve the hardest-to-serve markets under the duty-to-serve rule.

Next, we hope that FHFA will urge both Enterprises to incorporate more Residential Economic Diversity (RED) objectives into their final Plans. RED was not included in Freddie Mac's plan. It was included under "affordable housing preservation" in Fannie Mae's plan in a relatively small and vague objective. The mission of Grounded Solutions Network is to cultivate communities — equitable, inclusive and rich in opportunity — by advancing affordable housing solutions that last for generations. We believe that there is ample opportunity to support RED across the country, and we hope that both Enterprises will explore mixed-income development financing products.

Lastly, we ask that FHFA makes it easier and more transparent for the Enterprises to make investments and grants. We believe that investments are going to be critical to foster innovation and catalyze access to financing in certain underserved markets. As we will discuss below, we applaud Freddie Mac for investing in research of a shared appreciation loan fund, which could expand the shared equity homeownership field if the fund comes to fruition and is capitalized. However, stakeholders and the Enterprises need clarity and flexibility from FHFA for making investments that may advance the duty-to-serve goals and incubate innovation. Beyond the aforementioned fund for instance, explicit approval for investing in CDFIs with opportunities and goals aligned to duty-to-serve should be granted in our opinion.

Fannie Mae Plan: Shared Equity Homeownership Comments

Our comments are organized around the "Objectives for Shared Equity Homeownership" presented in the proposed Fannie Mae Underserved Market Plan followed by our specific concerns and recommendations. Overall, we see a trend across Fannie Mae's Underserved Market Plan, which is to propose relatively vague "foundation laying" activities over long periods of time before substantial change or performance is proposed. Our comments are intended to push Fannie Mae to be more ambitious, concrete, and impactful, while reasonably addressing safety and soundness concerns.

Objective #1: Conduct outreach and market research through engagements with lenders and cross-functional industry representatives to identify and analyze market challenges, provide information about affordable lending products, facilitate the delivery of loans, and maintain a communication feedback loop to facilitate a continuous improvement process (Analyze, Partner and Innovate).

Grounded Solutions Network provided a white paper two years ago that concretely identifies the challenges in the Fannie Mae Selling Guide for increasing access to mortgage financing for buyers/owners of shared equity homes by each model (i.e. community land trusts, deed-restricted housing programs, and shared appreciation loan programs). Therefore, the rationale provided in this Objective for outreach among lenders and stakeholders to identify loan product enhancements seems unnecessary and redundant, as the existing white paper that was created by Grounded Solutions Network based upon input from lenders and practitioners across the country.

However, we welcome support and participation in our Intersections conference, where we convene practitioners from all over the country. We also certainly support outreach with lenders and our members to promote more origination to buyers and owners of shared equity homes. However, after Fannie Mae incorporated some shared equity models into Desktop Underwriter for automatic underwriting (for which we're so grateful), we worked together to educate lenders through a webinar and outreach through publications. These activities did not prove to be as high impact as we had hoped. Ultimately, loans to shared equity buyers are complicated and in small amounts, which deters lenders from originating these loans. Therefore—while we see value in things like webinars or educational materials disseminated to lenders and program providers—we would also like to see additional strategic activities such as:

- Consider incentives to lenders rather than education and outreach. Ultimately, it is the small loan amount, burden, and knowledge of guidelines that deters lenders from originating to buyers in shared equity programs.
- Proactively recruit a select group of Fannie Mae lenders working at financial institutions with large geographic footprints to educate, train, and incentivize them to partner with shared equity programs to originate purchase and refinance mortgages to the program's homebuyers and owners.
- Conduct broad base outreach to Fannie Mae lenders, especially when future loan product changes make origination easier or provide better incentivizes.
- Formally staff a Fannie Mae "help desk" that is available for lenders and program providers to provide technical assistance and lender recruitment services. Hence, lenders in the middle of deals could get fast answers and certainty on compliance, and program providers may request help to find local Fannie Mae lenders that can be trained and supported (and hopefully, incentivized) on shared equity homeownership origination.

Currently, Fannie Mae already meets with Grounded Solutions Network staff, practitioners and lenders. We applaud their engagement. However, unless greater strategic activities are added to this objective, we do not believe that the Concept Score of a 30 is warranted relative to other Objectives.

Objective #2: Conduct research, acquire data, and analyze findings to understand the challenges and opportunities for preserving the long-term affordability of, and for financing and purchasing mortgage loans on, shared equity property types and distribute findings (Analyze, Test and Learn).

We find this objective vague and would like additional detail in the final Plan; additionally, we request that different research is also conducted to better reach Fannie Mae's goals articulated under this objective (and more broadly, for this underserved market). Under Objective 4, Fannie Mae states that it has not tracked shared equity loans, and therefore, cannot establish a baseline for loan purchases. However, under this Objective, the Plan states that it will perform an analysis of Fannie Mae's portfolio of shared equity loans in Year 1, 2, and 3. Can Fannie Mae please clarify how this will be possible, especially in year 1? If it is possible, then please establish a baseline on loan purchases.

Next, we are happy for Fannie Mae to publish its findings on the loan performance related to shared equity; however, we are not particularly clear on what an economic study or case study would be or whether they would meaningful help the field, and ultimately, increase liquidity and access in this

market. Hence, we do not understand how a Concept Score of 40 is warranted. We request that Fannie Mae explain exactly how these activities are directly related to loan product objectives in the Final Plan or consider replacing them with research recommendations below.
Ultimately, we believe that Fannie Mae should support meaningful research that would result in more impact on the field, loan product development, and loan purchases. In particular, we request that Fannie Mae incorporates the following two research projects into its objectives:

A. ***Development, Updating, and Maintenance of a National Inclusionary Housing Database.*** A critical challenge in the realm of shared equity homeownership is understanding the size and scope of the market. The largest market, which is the least documented, is deed-restricted housing in inclusionary housing programs. In 2016, we undertook the largest and most comprehensive national "census" of inclusionary housing that has been conducted to date, and we will be publishing trends and impacts of inclusionary housing programs in a report in the next few months. However, the information needs to updated and improved over time, which we cannot afford to continue to do on our own. This research not only documents deed-restricted homeownership programs that meet the definition of shared equity homeownership, but it also helps to document state and local affordable housing programs for multi-family affordable rental projects, which is relevant to other objectives under "affordable housing preservation."

B. ***Best Practices, Enabling Policies, and Innovations in Rental Housing that Provides Lasting Affordability.*** Far less is known about how to most effectively deliver permanently affordable housing in rental projects than shared equity homeownership; however, it is critically important to the duty-to-serve "affordable housing preservation" market. Support is needed to conduct an applied research project that "works the problem" of building in permanent affordability requirements to rental public policies and projects. Preliminary research indicates that by financing and underwriting affordable rental projects differently, we could be saving substantial public and private resources on recapitalization and preservation of rental properties that are aging out of their affordability requirements. For instance, one approach called "life-cycle underwriting" shows that if multifamily rental projects increased reserves by roughly $2,500 per unit in the original pro forma, it could save over $60,000 of public investment per unit 15 years later (all while keeping properties affordability for the life of the buildings). Another model that warrants exploration is by simply structuring mortgages differently. Additionally, state housing finance agencies appear to be moving in the direction of adopting longer affordable terms in their Qualified Allocation Plans.

   We believe that Fannie Mae could be a leader of outreach and investment in research to advance lasting affordability in multi-family rental, which we believe should be considered important to innovation and significant future impact on the "affordable preservation market." We encourage Fannie Mae to consider this Additional Activity or to incorporate this objective into its Plan. Freddie Mac is making a significant investment in research and development to support the field and its growth. We believe that Fannie Mae should do this as well, especially in light of the promise and substantial impact that permanently affordable housing strategies may have on lower income households.

Objective #3: 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 (Test and Learn).

We believe that changes to the Selling Guide are one of the most important things that Fannie Mae can do in order to increase liquidity and access to mortgages for shared equity homebuyers. Currently, whole segments of the shared equity homeownership market are excluded from Fannie Mae loan purchase due to—sometimes inadvertent— terms in the Selling Guide. Alternatively, many lenders do not originate and sell mortgages to Fannie Mae due to burden and fear of compliance with the existing Selling Guide. Therefore, we do not believe that it is sufficient for Fannie Mae to generally write that each year it will "create variance terms" and issue variances "to select lenders." Depending upon what the variance term is and how many are pursued, this could either have a very large or very small impact on the field.

Consequently, we request that the final Plan has concrete information on the variances Fannie Mae plans to prioritize, the scope of availability for such variances, and the timeline for formalizing permanent changes into the Selling Guide (assuming that loan performance evidences safety and soundness). Most importantly, we ask that Fannie Mae quickly rolls out changes without limiting access to a select group of lenders and without piloting. Ultimately, loan performance among owners of shared equity homes has been found to be incredibly positive and the field is relatively small. Hence, concerns of safety, soundness, or adverse impacts from loan performance are unfounded.

Per the white paper that we submitted to Fannie Mae, which analyzed barriers for lending to shared equity homeownership and recommended changes to the Selling Guide, we request that Fannie Mae works to address the following in this Plan cycle:

- Removing barriers for deed-restricted programs, especially that have restrictions that survive foreclosure, including but not limited to:
    - Making it much clearer in the Selling Guide which sections and requirements apply to which kind of deed-restricted program
    - Establish automated underwriting when restrictions survive foreclosure.
    - Calculate down payment requirements based upon the affordable purchase (not the appraised value).
    - Remove reps & warranty requirements for lenders or provide some alternative incentive.
    - Provide guidance on how to evaluate the impact of different resale restrictions on property appraisals and establish a system to allow market-rate comparables to be used during appraisal process.
    - Remove reference to requirements on shared appreciation in property value and allow nonprofits and government SEH programs to design resale formulas that work for their local markets and balance wealth building and affordability preservation.
- Minimize and clarify organizational underwriting criteria for community land trusts and consider moving organizational underwriting in-house or to a third-party in order to minimize burden on lenders, and hopefully, provide additional incentives for lenders to originate loans on ground leased property.

If Fannie Mae seriously works to implement as many of these product changes as possible in the next three years, we believe that their Concept Score should be raised to 50.

Objective #4: Purchase shared equity mortgage loans (Do What We Do Best).

We would like to request that Fannie Mae re-examine whether they could establish a baseline measure of the number of loans that would likely qualify under the shared equity homeownership in the DTS rule. My understanding is that about three years ago FHA received information on loan performance data from Fannie Mae to evaluate their own policies on shared equity. At that time, the sample included deed-restrictions that were not necessarily designed for lasting affordability, but they were on affordable homes. Therefore, this could hopefully provide some relative understanding of where to set the goals for loan purchase. We request that Fannie Mae provides this information and uses it to set more ambitious purchase goals.

Grounded Solutions Network through empirical research has documented roughly 100,000 homes, which is nowhere near the entire shared equity homeownership field. We are aware of hundreds of additional programs for which we don't have unit counts. Fannie Mae is proposing to purchase a mere 1% of those documented units over three years. Furthermore, each time a shared equity home is resold that is another mortgage loan. Ultimately, the purchase goals feel low since it would be very possible for the GSEs to simply purchase existing pools of a few hundred loans from state HFAs or financial institutions that have partnered with large shared equity programs, underwritten to Fannie's Selling Guidelines, but that did not ultimately sell the loans. We suspect that this has and continues to happen frequently (i.e. underwriting to Guide but not selling to Fannie Mae). While we support purchasing pools of shared equity loans to free up financing for additional loans, we also want to ensure that pool purchases do not trump promoting new lending partnerships with shared equity homeownership programs and access to Fannie Mae mortgage products for programs that do not currently have a Fannie Mae lender.

Therefore, we urge Fannie Mae to double their goal for loan purchases for every year within their final Plan. Additionally, we ask that Fannie Mae commits to purchasing loans across a broad geography and across shared equity models. We believe that only more ambitious loan purchase goals would justify a Concept Score of 50. We hope that more ambitious purchase goals will prompt Fannie Mae to conduct strategic outreach and pursue needed changes in the Selling Guide in a more expedient fashion. Lastly, we support the concept that refinance (not only home purchase) goals should count towards loan purchases, as options for advantageous refinancing for shared equity borrowers is also limited but can promote wealth-building and indirectly the preservation of affordable homes.

Objective #5: Determine potential role for multifamily financing in conjunction with single-family shared equity efforts (Analyze, Partner and Innovate).

We applaud Fannie Mae's incorporation of an objective related to better supporting and serving multi-family housing that delivers lasting affordability. However, we would urge Fannie Mae to expand and catalyze more impactful activities under this objective.

First, we would like see more impactful activities for limited equity housing cooperatives. We do not believe it is adequate to conduct outreach activities to limited audiences for three years, nor does the scale of the current outreach justify a Concept Score of 30. We urge Fannie Mae to conduct outreach as a Year 1 activity and then develop a "pilot" and/or product variances for year 2 and 3 that will result in evaluating loan performance and permanent changes on financing products. We urge Fannie Mae to address two different aspects of lending for cooperatives in these expanded activities: (1) improving the terms of blanket mortgages and supporting preservation of existing cooperatives, and (2) offering a viable share loan product for buyers in limited equity housing cooperatives.

Second, and as explained under Objective 2, we would urge Fannie Mae to invest in research on how to effectively provide lasting affordability in rental housing.

FREDDIE MAC PLAN: SHARED EQUITY HOMEOWNERSHIP COMMENTS

Our comments are organized around the “Objectives for Shared Equity Homeownership” presented in the proposed Freddie Mac Underserved Market Plan followed by our specific concerns and recommendations. Overall, we believe that Freddie Mac’s Plan takes too long before substantial change and loan purchasing would take place. Our comments are intended to push Freddie Mac to be more ambitious, concrete, and impactful, while reasonably addressing safety and soundness concerns.

Objective A: Invest in research and development of a shared appreciation revolving funding model.

Grounded Solutions Network applauds Freddie Mac for making an investment in evaluating the feasibility and supporting the development this innovative strategy—namely a shared appreciation loan fund— to scale the field. Freddie Mac acknowledges hoping to be able to design a pilot to test product underwriting features and flexibilities. However, it will be vital that loan product development accommodates how the shared appreciation loans would be structured, and these loan products must be available to recruit investors and successfully deploy shared appreciation loans through the fund. Therefore, we request explicit commitment to establish loan product clarifications and terms within their Selling Guide that support the shared appreciation loan fund.

Additionally, it is not possible to fully anticipate the timeline and the comprehensive needs for research and development to establish the fund; therefore, we request that Freddie Mac commits up to $1 million in 2019 in addition to the $2 million in 2018. If the investment is not needed or the fund is rendered infeasible then Grounded Solutions Network will support changes in the Underserved Market Plans.

Grounded Solutions Network hopes that Freddie Mac will even more intensively pursue the “spirit” in this Objective, which is to innovatively explore opportunities to scale housing with lasting affordability. Outside of the shared appreciation loan fund, there are opportunities to support advancing permanent affordability in rental housing (see comments on Fannie Mae’s Objective 2b) and research and product development in limited housing cooperatives (see comments on Fannie Mae’s objective 5). In particular, support is needed to conduct an applied research project that “works the problem” of building in permanent affordability requirements to rental public policies and projects.

Objective B. Increase market awareness of shared equity programs.

We appreciate that Freddie Mac is aware that they have a smaller presence in lending to shared equity programs at present and will need to conduct in outreach activities, especially as they build out the Selling Guide. However, we do not believe that a survey of lenders as a Year 1 activity is needed. This seems unnecessary since it known that Freddie Mac lenders don’t know about shared equity homeownership in light of the limited offerings and loan purchasing currently being conducted.

We fully support intensive lender and shared equity practitioner education, recruitment, and incentives to originate loans to shared equity buyers, especially after loan product changes have occurred. We would like more strategic activities, however, than providing "at least two lender trainings." We recommend that the Plan includes the following.

- Incentives should be considered for lenders. Ultimately, these loans are unique, take extra work to ensure compliance, and are for small amounts. Education alone may not drastically increase volume.
- Additionally, we recommend proactively recruiting a select group of Freddie Mac lenders working at financial institutions with large geographic footprints to educate, train, and incentivize them to partner with shared equity programs to originate mortgages to their homebuyer and owners.
- Freddie Mac also references curriculum for lenders in Year 2 and then curriculum for shared equity programs in Year 3. We believe that clear, easy-to-understand step-by-step guides by various shared equity models—which explain the Selling Guide—could serve both audiences. We urge this to be developed in Year 2 (and modified over time if additional loan product changes occur).
- We would like to see strategic dissemination of curriculum and partnership building, whereby Freddie Mac identifies lenders in markets with shared equity homeownership programs and builds partnerships between originators and the program. This would be much more impactful than webinars.
- Lastly, Freddie Mac mentions offering technical assistance and customer support through current infrastructure. Grounded Solutions Network believes a "help desk" that is available for lenders and program providers to provide technical assistance and lender recruitment services. Hence, lenders in the middle of deals could get fast answers and certainty on compliance, and program providers may request help to find local Fannie Mae lenders that can be trained and supported (and hopefully, incentivized) on shared equity homeownership origination.

Objective C. Develop comprehensive underwriting guidelines to facilitate originations of loans under shared equity programs.

Grounded Solutions Network appreciates the commitment to "develop comprehensive underwriting guidelines" and to account for the "right balance between standardization and flexibility" as Freddie Mac develops "uniform legal instruments." However, we request that Freddie Mac explicitly makes a commitment to serve each type of shared equity homeownership model included under the DTS definition (i.e. community land trusts, deed-restricted housing with and without restrictions surviving foreclosure, and shared appreciation loans). Notably, we would also like Freddie Mac to explore how they can support financing needs in limited equity housing cooperatives for blanket loan, preservation-target lending, and share loans.

However, we do not support a "pilot" to test potential variations; rather, we support rolling them out and evaluating loan performance over time. All research consistently indicates that shared equity homebuyers have incredibly well-performing first mortgages, and the volume would be insignificant based upon the relative size of the field to have any meaningful (and likely measurable) impact on securitized single-family mortgages.

In light of the comments above (see Objective A), it is vital that the ability to purchase shared appreciation loans is in place before the Shared Appreciation Loan Fund launches. Therefore, Grounded

Solutions Network requests that all “Actions” listed in the table in the plan under “Specific Action” are pursued in Year 1.

Last, but certainly not least, the result of loan product changes should be that Freddie Mac is now actively participating in the shared equity homeownership market, which means that Year 3 should have a loan purchase objective. Grounded Solutions Network would recommend no less than 500 loans in the first year. We also request that loan purchasing is not done through a pilot that would limit certain shared equity programs or certain models access to the secondary market. We request Freddie Mac pursues loan purchasing across shared equity models and geographies.

Ultimately, we are looking to Fannie Mae and Freddie Mac to be innovative and work with Grounded Solutions Network, our members, and others in the field in to find ways to increase access to financing and help scale shared equity homeownership and affordable housing with lasting affordability. On behalf of our members and the field of shared equity homeownership programs, we thank Fannie Mae, Freddie Mac, and FHFA for reviewing and addressing our comments as the final Plans are prepared. Please know that we are here to answer any questions and will do everything possible to support Fannie Mae and Freddie Mac during the implementation of the final 2018-2020 Plans.

Sincerely,

Emily Thaden
Director of National Policy & Sector Strategy

Melora Hiller
Chief Executive Officer