Department of
Housing Preservation
& Development

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Jim Gray
Program Manager, Duty to Serve
FHFA
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

Re: Government Sponsored Entities' Duty to Serve Plans

Dear Mr. Gray,

Thank you for the opportunity to comment on the proposed Duty to Serve Plans by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Association (Freddie Mac), collectively known as the Government Sponsored Entities (GSEs). The GSEs play a pivotal role in the nation's housing market, and their continued investment in affordable housing can help address a growing need across the country for rental housing and homeownership options for low- and moderate-income Americans. The preservation of affordable housing, one of the three underserved markets identified by the Federal Housing Finance Agency for Duty to Serve credit, is of upmost importance to New York City.

As the largest municipal housing agency in the country, the New York City Department of Housing Preservation and Development (HPD) is charged with implementing an ambitious, 10-year, 200,000 unit affordable housing plan, *Housing New York*. Maintaining the quality and affordability of existing housing is a key part of the plan's strategy, accounting for 60 percent of the units. The City is working on multiple fronts to keep New Yorkers in their homes and make sure our affordable housing stock is in good financial and physical shape.

With an aging and diverse building stock and incredible market pressures for owners to convert to market rate, preserving affordable housing for low- and moderate-income New Yorkers requires substantial resources and ingenuity. HPD has expanded and refined its preservation tools to reach a wider range of properties and neighborhoods. We appreciate the focus on preservation in the GSE Duty to Serve plans and look forward to the opportunity to help strategize on best practices for large, high-cost markets.

In particular, we would like to comment on the market gaps that the GSEs can help fill in New York City, including single family repairs and distressed notes, preserving small multifamily buildings, allowing equity takeouts on multifamily properties as a strategy to maintain affordability, energy efficiency in housing serving low-income residents, and the unique financing needs of Section 202 senior housing.

Single family properties

Single family repair loans

HPD sees robust demand for assistance in renovating one to four unit homes owned or occupied by low- and moderate-income families. The local funding sources available to meet building repair needs generally cannot be used for one to two unit homes. Many low-to-moderate single family homeowners have home repair needs that have been put off for years. With limited access to capital, homes go into disrepair and are often sold or lost to foreclosure under distress. We encourage the GSEs to develop products to finance home repairs for low-income homeowners that offer attractive, low-cost, long-term capital.

Families that are able to leverage government and non-profit homeownership subsidy programs often face complicated application processes and lengthy repairs. HPD encourages the GSEs to engage its lender partners to better market available refinance and home equity mortgage products in low-to-moderate income communities. There is currently an unmet need for property rehabilitation financing across one to four unit households, specifically concerning:

- elderly, fixed-income households,
- homeowners with equity, but limited earnings,
- owner-occupants, with curtailed rental income due to distressed property conditions,
- homeowners of households with basements currently lacking occupancy certification.

Programs like Fannie Mae's HomeStyle® Renovation Mortgage and Community Seconds® provide lending channels that homeowners can access for home repairs. In addition to their role in developing secondary markets for mortgage products that support home repair and investment, we encourage the GSE's to support public and private funding of municipality administrated revolving home repair pools. Cross-leveraged investment through such a fund will strengthen long-term homeownership.

Community Impact Pool

Nearly ten years after the financial crisis, low-income households and communities continue to reel from its effects, and communities of color are disproportionately impacted by foreclosure actions. Fannie Mae's Community Impact Pool (CIP) should be structured to enable not-for-profit organizations or local municipalities to stabilize low- and moderate-income homeowners and communities with high levels of distressed mortgages. It is essential that only organizations with proven commitment to community development have access to CIPs, so that the goals of ensuring positive outcomes for residents and maintaining the affordability and viability of the housing stock throughout New York City are met. Ideally, non-performing loan pools would be set aside for municipalities and nonprofits to ensure community benefits are the true motivation, instead of profit. If the goal is to stabilize communities and the intended purchasers are good actors, then rules of the program must be set to allow only government agencies and nonprofits to win the bidding process. At a minimum, these entities should be allowed to submit a best and final offer or have a right of first refusal to match the winning bid.

Preservation of small multifamily properties

Small multifamily properties with fewer than 20 units account for much of the city's naturally occurring affordable housing stock, with more than half of the units in these small buildings renting at levels that are affordable to low-income renter households. Two in five low-income renter households live in buildings with fewer than 20 units, including one in four in a building with six or fewer units. Additionally, small buildings are clustered in neighborhoods in outer boroughs, where affordable housing must be preserved to combat displacement. Products to preserve quality and affordability in these small multifamily properties are crucial to a true citywide affordable housing and community development strategy.

Currently, it is difficult to find private financing at favorable terms for these small multifamily properties as the loan sizes are too small for traditional lenders or the origination costs too high. The State of New York Mortgage Association, a primary mortgage insurer for the bank portion of financing in City-subsidized affordable housing projects, will insure loans above $250,000, but most lenders won't originate loans below $500,000 to $1,000,000. A recent applicant to our Green Housing Preservation Program with a 13-unit building only needed $332,000 to complete needed energy efficiency and capital work on the building, but had a healthy enough cash flow to support $220,000 of the project development cost using private debt with at least a 20-year loan term at 5.25% interest. For such buildings that provide housing for low- and moderate-income households, the ability to find lower-cost financing for project needs is even more difficult given limited revenue potential. We encourage the GSEs to explore developing a product for refinancing and repair costs for small multifamily properties serving low- and moderate-income residents with loan sizes between $100,000 and $1,000,000. The market in New York needs loans that are right-sized for small multifamily buildings, easy to deploy for lenders, and accessible to owners without experience with government funding.

Equity takeout on multifamily properties

In high-cost areas like New York City, the housing market is strong enough to threaten long-term affordability. High sales prices make it difficult to preserve properties sold for a premium, as owners have to carry the costs of acquisition financing as well as ongoing operations. HPD would encourage the GSEs to explore additional programs to incentivize long-term affordability in strong markets through a program that allows owners to take equity proceeds from their property so long as the loan to value ratio is reasonable, potentially with a higher loan to value limit than offered currently, in exchange for entering or extending regulatory agreements.

Energy efficiency

Energy and water efficiency in affordable housing helps bring economic and environmental benefits to low-income communities, lowering utility costs for owners and residents while helping to achieve climate goals. To this end, HPD requires all substantial rehabilitation and new construction projects to meet Enterprise Green Communities Criteria. Most moderate rehabilitation projects are required to obtain an Integrated Physical Needs Assessment (IPNA), which includes an energy audit and solar potential evaluation tool, to identify opportunities for energy and water efficiency along with capital needs. We applaud the work of the GSEs to study and continue to develop incentives to support energy efficiency in affordable housing. The IPNA used by HPD should be acceptable to the GSEs with the most recent modifications. The alignment should allow owners to maximize financing for project needs while minimizing the soft and transaction costs. As part of this assessment, we include a basic solar assessment as well as an assessment of energy efficiency and water conservation. Solar energy can help lower utility costs significantly, but there is a gap in the market for financing solar in affordable housing developed by nonprofits, as the major source of funding is through tax credits. We encourage the GSEs to explore favorable financing options for these properties without tax liability.

Section 202 senior housing

HPD is committed to providing safe, quality, and affordable housing for seniors to age in place in their communities. HPD recently created the Senior Affordable Rental Apartments program to provide financing for new construction projects. In addition, the Zoning for Quality and Affordability plan passed in 2015 by the City Council allows increased density, lowers parking requirements, and makes additional changes to incentivize the development of more senior affordable housing.

On the preservation side, HPD proactively reaches out to Section 202 property owners to discuss options for rehabilitation, but there is a market for additional resources beyond FHA 223(f) or 221(d)(4) loans, and a need for replicable programs and scalable solutions to preserve these properties. There are approximately 220 HUD 202 properties in New York City with nearly 19,000 housing units, many of which are aging and in need of renovations and refinancing.

HUD 202 properties are in need of refinancing and repairs to support these properties as they age, and we encourage the GSEs to explore ways to provide low-cost, long-term financing for senior housing, including support for services and access to community resources.

Thank you, again, for the opportunity to submit these comments. We look forward to discussing these ideas with you further.

Sincerely,

Maria Torres-Springer
Commissioner
New York City Department of Housing Preservation & Development