July 10, 2017

The Honorable Mel Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20219

RE: Fannie Mae and Freddie Mac Underserved Markets Plans

Dear Director Watt:

Thank you for the opportunity to comment on the proposed Underserved Market Plans submitted by Fannie Mae and Freddie Mac (the Enterprises) to meet their Duty to Serve obligations under the Housing and Economic Recovery Act of 2008 (HERA).

Established in 1979, LISC is a national non-profit housing and community development organization that is dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations with loans, grants and equity investments; as well as technical and management assistance.

LISC has a nationwide footprint, with local offices in 31 cities and partnerships with 77 different organizations serving 2,000 rural counties throughout the country. LISC invests approximately $1 billion each year in these communities. Our work covers a wide range of activities, including housing, economic development, building family wealth and incomes, education, and creating healthy communities. Since 1980, LISC and the National Equity Fund (LISC's Low Income Housing Tax Credit syndication arm) have invested $13 billion in communities across the country, which has leveraged $38 billion in total development and financed over 300,000 affordable homes and apartments.

We are pleased to provide a consolidated set of comments and suggestions to FHFA -- covering rural housing, manufactured housing, and affordable housing preservation -- that are broadly applicable to each Enterprise's Underserved Markets Plan.

General Comments
In its final rule on the Enterprises' Duty to Serve responsibilities, FHFA chose to include areas of programmatic activity that are beyond the statutory requirements of HERA, such as financing for energy efficiency improvements and shared equity programs. These issues are important and worthy of close attention by FHFA and the Enterprises, but their inclusion in the Duty to Serve framework, together with the creation of multiple sub-categories of activities and evaluation factors, results in more complicated plans and greater challenges for public comment. It may also have the unintended effect of diluting the focus on rural housing, affordable housing preservation, and manufactured housing. Many mission-based affordable housing lenders and developers that are natural partners in expanding housing opportunities for lower-income households lack the resources for ongoing engagement in a complex regulatory process, and many have found this effort somewhat daunting.

LISC believes that the Duty to Serve effort should focus primarily on supporting and expanding transactions that improve affordable housing opportunities in underserved geographies and for underserved populations. The efforts of the Enterprises pursuant to their Duty to Serve should be evaluated by the extent to which they facilitate more transactions to create or preserve these types of housing opportunities, particularly for households at the lowest end of the income spectrum (consistent with their mandate to engage in profit-making activities).

The outreach of the Enterprises in developing their plans has been commendable, and LISC looks forward to translating that initial effort into tangible results. The types of transactions that will expand choice and opportunity for underserved areas and low-income households are often smaller, more labor-intensive, and have different risk profiles than is typical in conventional mortgage underwriting. Community Development Financial Institutions (CDFIs) have worked in underserved communities for many years and have first-hand knowledge of local markets and partners. We are adept at mitigating the risks that are often inherent in investing in them. With our strong loan portfolios – LISC currently has a delinquency rate of less than 1% – we are natural partners for leveraging the Enterprises' liquidity and expanding responsible investment in these markets.

Rural Housing
We support the goals of the Enterprises to work with CDFIs to promote affordable single-family housing opportunities in rural areas, and particularly in areas of persistent poverty. In addition, we note that the Section 515 housing program is important to meeting Duty to Serve goals both as a rural asset and as an affordable housing preservation goal. The Enterprises can play a vital role by developing 515 refinancing products that take into consideration the structuring challenges and providing a secondary market for these loans. An existing product that is flexible and provides preservation option is the Section 538 Guaranteed Rural Rental Housing Program. The Enterprises are already authorized to purchase 538 loans. We urge them to prioritize the purchase of Section 538 loans to refinance Section 515 properties.

Additionally, given the relatively small number of units in most pre-1989 projects – 19-33 units per property – "bundling" projects for recapitalization is an efficient and cost effective method of preservation. Adapting existing Enterprise bridge financing products to accommodate Section 515 portfolio transactions and purchasing them on the secondary market would be a meaningful tool for preservation of Section 515 properties. This type of bundled refinancing for recapitalization can be helpful for preserving other multifamily properties, such as smaller Section 202 elderly properties.

We strongly support efforts to modify single-family loan criteria in order to expand borrower eligibility, since this will have a significant impact in rural areas of persistent poverty, and look forward to seeing specifics on changes in eligibility criteria and areas of geographic focus. We believe these changes could be very helpful and do not create undue risk when they are mitigated by other loan factors. We also support further research on the single family rural housing market, particularly for rural regions of persistent poverty and limited access to credit.

Under the Duty to Serve final rule, Enterprise LIHTC equity investments will be eligible for Duty to Serve credit in rural areas, and both Enterprises' proposed plans contemplate investments in rural communities. Spurring LIHTC investment in rural communities could have a meaningful impact on the creation and preservation of rental housing in rural communities, where there is often a very limited supply of quality rental housing. To the extent that an Enterprise resumes LIHTC investments, we encourage investments throughout rural areas facing an unmet need for quality rental housing at LIHTC rents, as opposed to areas that may already be receiving strong interest from investors motivated by Community Reinvestment Act credit.

Preservation of Affordable Multifamily Housing

Preserving affordable housing in the face of market forces or deterioration is a critical component of LISC's broader strategy for community revitalization and economic mobility. We endorse the comments submitted by the Preservation Working Group (PWG), of which we are a member, regarding preservation of affordable rental housing; and would highlight in particular PWG's comments pertaining to the Low Income Housing Tax Credit, Rental Assistance Demonstration program, and the role of Community Development Financial Institutions (CDFIs) in financing affordable housing preservation.

LISC is concerned that expanded access to financing may actually be undermining affordability in some circumstances. In many markets we find that existing affordable housing, both subsidized and unsubsidized, is being acquired by investors at prices that are inconsistent with long-term affordability. The fact that these properties are serving low- or moderate-income households at the time of the transaction should not cause any loan to be identified as meeting a Duty to Serve if higher rents and displacement of lower-income residents are a direct result. This is inconsistent with affordable housing goals, even if the higher-income tenants that follow are still within a broader "moderate income" category. We urge that the Enterprises also be aware of risks to future affordability, such as properties in rapidly gentrifying neighborhoods or properties completing their LIHTC tax compliance periods that are still subject to extended use restrictions. Any financing that relies upon significant rent increases should not be counted toward satisfying the Duty to Serve or affordable housing goals.

Both Enterprises have set loan purchase goals using actual past loan purchases as a baseline. While it is appropriate to adjust the baseline in anticipation of regulatory and market changes, both plans include significant downward adjustments. This is based upon an assumption that Congress will reduce the corporate tax rate to 20 percent and eliminate or materially reduce funding for the HOME Program and Community Development Block Grants (CDBG). While these significant changes are possible, they are far from certain. Loan purchase targets that are significantly below recent volume are unlikely to have a meaningful impact and certainly would not represent an improvement in service to underserved markets. We encourage FHFA to require the Enterprises to set more ambitious housing preservation loan purchase targets.

In some cases, Enterprise investments in LIHTC properties have led to complicated negotiations over disposition at the end of the tax credit compliance period. As part of their Duty to Serve, we urge the Enterprises to promote the long-term affordability of properties built or rehabilitated with the use of the LIHTC and, whenever practicable, that they promote transfers of LIHTC properties to nonprofit owners with the mission and experience to maintain these properties in good condition and available for long-term affordability.

Manufactured Housing

Manufactured housing accounts for about 7% of the nation's housing stock, housing about 18 million Americans. It is by far the largest source of unsubsidized affordable housing in the nation and a significant source of housing in rural America, providing 14% of the rural housing stock.

Loans on manufactured homes titled as real estate account for a small share of the overall market, ranging between 10% and 15% of annual sales. Expanded Enterprise presence in this market will help to strengthen conventional mortgage financing for manufactured homes, which will result in lower costs and better protections for residents.

The availability of conventional mortgage financing and long-term safety and durability of manufactured homes is closely connected to the issue of foundation systems and installation standards. While appropriate installation is essential, many lenders or agencies prescribe overly complex systems that are expensive and over-engineered for the location. The Enterprises should support state-devised standards, which would comply with federal law and address the various climate and soil conditions that exist across the United States.

While conventional mortgages have many advantages, chattel loans still provide a significant share of the financing for manufactured homes. To meaningfully meet their Duty to Serve the manufactured housing market, the Enterprises must develop products and processes that increase liquidity, competition, and consumer protections to the chattel market. As a start, the Enterprises should establish a meaningful chattel pilot. We also support efforts to strengthen financing tools for manufactured housing communities owned by governmental entities, nonprofit organizations, and residents.

Owners of older mobile homes in Appalachia pay disproportionately high utility costs, which threaten their housing stability. Effective Enterprise strategies to encourage and support highly energy efficient manufactured homes can support both the rural and manufactured housing components of the Plans as well as help standardize underwriting for energy efficient homes.

Activities
In support of these comments, LISC encourages the Enterprises to pursue the following strategies in support of rural housing and affordable rental housing preservation. We would welcome the opportunity to explore these ideas with FHFA and the Enterprises in greater detail.

- Program related investments and lines of credit to strong CDFIs for predevelopment, bridge financing, and longer term financing of rural and other affordable rental housing at terms that are the same or better than conventional market products.
- Collaboration with State FHAs to offer a forward commitment of mortgage financing for up to 24 months at below-market rates.
- Loan and bond guarantees at reasonable rates.
- Purchases of qualified rural and affordable multifamily rental property mortgages from CDFIs.
- Collaboration with state housing agencies and preservation purchasers to provide information on delinquent, distressed or expiring LIHTC properties in order to help assure that the properties are well-maintained and retained in the affordable housing inventory.

Thank you for your consideration of these comments.

Sincerely,

Matt Josephs
Senior Vice President for Policy