MORTGAGE BANKERS ASSOCIATION

July 10, 2017

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

RE: Proposed Duty to Serve Underserved Markets Plans

Dear Director Watt,

The Mortgage Bankers Association (MBA)[1] thanks the Federal Housing Finance Agency (FHFA) for the opportunity to comment on the proposed Underserved Markets Plans (Plans) of Fannie Mae and Freddie Mac (collectively, the Enterprises). These Plans provide an important overview of steps to be taken by the Enterprises to meet their obligations under the Duty to Serve Final Rule published in December 2016.

MBA strongly supports efforts to improve liquidity in secondary markets for affordable housing preservation, manufactured housing, and rural housing, and believes that such improvements hold the potential to benefit very low-, low-, and moderate-income borrowers. As the Enterprises progress through the three-year timeline covered by the Plans, MBA urges that they engage with the full spectrum of secondary market participants—including single-family and multifamily lenders of all sizes and business models, servicers, and investors—to ensure that the implementation of the Plans remains aligned with market demand. We believe that such outreach and collaboration will allow the Enterprises to better identify which products and activities will be most effective in carrying out the objectives of the Duty to Serve program.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

Also, MBA historically has held that the proper role of the Enterprises should be confined to the secondary mortgage market, consistent with their respective charters and the concept known as the “bright line.” The separation of the primary and secondary markets has been an important element in developing a secondary market that effectively provides liquidity and promotes the availability of nationwide mortgage credit.

Considerations Regarding Pilots and New Offerings

The Enterprises have proposed a number of pilot programs and new product offerings in their Plans. MBA supports this approach, as it should encourage competition and innovation in the primary market. In order to maximize the benefits of this approach, however, the Enterprises will need to carefully balance the trade-off between 1) flexibility in response to performance and market conditions, and 2) the desire for certainty and longer-term planning on the part of lenders and other industry stakeholders.

With respect to flexibility, we can be confident that some pilots and new offerings will be more successful than others, even if it is not clear at the outset which ones will fall into which category. The Enterprises should stand ready to shift resources towards those pilots and offerings that show more promise as they progress in the implementation of their Plans.

With respect to certainty and longer-term planning, the Enterprises should be mindful of the fact that developing successful secondary markets for new offerings requires resources on the part of lenders and other industry stakeholders. MBA encourages the Enterprises to maximize existing infrastructures and resources with their current lender partners. The Enterprises should first engage lender partners in developing products or programs. Further, before a lender firm can reasonably be expected to build the infrastructure necessary to sustain a new offering, it needs assurance that the Enterprises are committed to the offering.

In order to effectively manage these seemingly competing priorities, the Enterprises should develop a framework for evaluating the success of their pilots and new offerings. This framework should include performance benchmarks and estimated timelines for decisions about future activities. For example, clear and transparent communication about the frequency of reviews and the process by which the Enterprises choose to advance a pilot to more permanent status, continue adjusting the parameters of a pilot, or eliminate a pilot altogether will improve the ability and willingness of lenders and investors to participate. This framework would allow the Enterprises sufficient flexibility to alter pilots or new offerings based on their performance or changing market conditions, but would also keep the Enterprises sufficiently accountable to the market participants with whom they are engaging.

In some instances, the Enterprises have already provided details regarding the size and scope of pilots and new offerings, as well as estimated timelines within the three-year period covered by the Plans. This is a valuable first step, and the Enterprises should ensure that all pilots and new offerings proposed in the Plans contain such details. The Enterprises should consider areas in which they can supplement these proposals with further information regarding the process by which the pilots and new offerings will be advanced, changed, or eliminated. This can either be accomplished on a pilot-by-pilot basis or through a common framework to be used for all pilots.

Successfully implementing this approach will require the Enterprises to engage with lenders and investors early and often. This engagement should include both the initial design of pilots and new offerings as well as continual feedback regarding the execution of the steps envisioned in the Plans. If changes are being considered, the Enterprises should alert market participants of their intentions in a timely manner and solicit input as to how these changes should be undertaken. MBA urges the Enterprises to make the pilots broadly available to lenders and market participants that meet transparent performance and risk standards established by the Enterprises.

With respect to researching and developing pilots, particularly in the case of up-front lender risk-sharing (e.g. the DUS model), MBA urges the Enterprises to pay close attention to the potential incentives and returns for market participants, as these will determine lender involvement in the pilots and, ultimately, whether the pilots succeed. For example, the development and implementation of the Enterprises' energy efficiency programs—and any related pilots—must consider the potential impacts on their lender partners as well as on other capital sources in the same markets.

MBA believes that the role of the Enterprises as capital sources should be carefully calculated as well, as their presence might impact the role of other capital sources. There could be longer-term, unintended consequences on, for example, smaller regional markets and the lenders that operate in those markets. Currently, with the Enterprises in conservatorship, the objective should be to ensure that these markets continue to be served, but not by simply replacing one capital source with another. Also, MBA questions whether replacing one capital source with another government-guaranteed capital source would suitably fulfill the Duty to Serve mission.

Another important feature of any attempt to develop secondary market liquidity for a given product will be the ability of the Enterprises to serve a sufficiently diverse set of borrowers. In particular, products should be designed to serve borrowers of varying credit profiles, provided that these borrowers meet the minimal thresholds for safety and soundness considerations. This approach is akin to serving a "vertical tranche" of borrowers from a credit perspective rather than a "horizontal tranche." In addition to better pooling risks across borrowers, this approach should also expand the reach of the benefits provided by new products.

While much of the focus of the Plans is rightly directed towards product development and loan purchases, MBA is encouraged that the Enterprises have also committed to outreach and education in a number of areas. Improved financial literacy and homeownership education hold the promise of better enabling underserved borrowers to understand their housing options and make decisions that best suit their needs. As more borrowers become aware of new products and offerings, participation should increase and secondary market liquidity should be strengthened. MBA does not believe that outreach and education should be substitutes for product development and loan purchases, but instead that these efforts can effectively complement each other.

Finally, a critical component in developing any pilot or new offering is the gathering of data to better assess performance, risks, and other metrics relevant to the Enterprises and other market participants. This data will be used to analyze pilots or new offerings to determine whether or not certain products are viable for the purposes of establishing liquid secondary markets. The Enterprises should share the data they collect with other market participants wherever possible, and particularly with respect to products for which data on close substitutes is not available. Such transparency will encourage greater participation for products that show promise in terms of secondary market demand, which in turn will further develop liquidity for those products, ultimately benefiting borrowers as well as lenders and investors.

Considerations Specific to the Underserved Markets Addressed by the Plans

Chattel Lending

MBA is encouraged by the review of chattel loan pilots in the Enterprises' Plans. Because chattel loans comprise the vast majority of manufactured housing loans, it would be difficult for the Enterprises to fulfill their obligation to serve the manufactured housing market without addressing chattel loans. The unique risks posed by the chattel market, as well as the lack of readily available historical data on chattel loans, justifies the Enterprises' approach of first conducting research and market outreach prior to implementing loan purchases. Successful development of these pilots will require particularly strong communication and collaboration with lenders and investors.

Manufactured Housing Communities

FHFA should encourage the Enterprises to develop prudent underwriting standards that would permit financing of qualifying three-star and below properties and continue to explore and expand their investments beyond higher-end manufactured housing communities (MHCs). Attracting capital and liquidity to these submarkets and products will require performance information on the asset classes. Ultimately these steps, which require careful consideration, will expand the markets for these assets, improve liquidity, and lower costs to borrowers.

Equity Investments in LIHTC

MBA supports the Enterprises' reentry into Low-Income Housing Tax Credit (LIHTC) equity investments so long as they will target demonstrably underserved markets (e.g. rural markets) and account for a limited market share in these regions. The Plans look to achieve this balance, and MBA encourages FHFA to allow these investments only where private capital sources do not currently invest.

Financing of Small Multifamily Rental Properties

MBA data[2] confirms that one of the largest multifamily rental segments is that of small multifamily loans which typically serve multifamily properties in the 5-50 unit size. Of the 46,920 multifamily loans closed in 2015, 20,045 (43 percent) were loans for $1 million or less—often these properties provide affordable housing. Community and regional banks commonly provide loans to this market, so whether this market warrants additional policy focus could be subject to debate. Should credit be provided for Duty to Serve activity in the small multifamily market, MBA recommends that qualified loans be on properties that serve households at 80 percent of Area Median Income (AMI) or less. The Enterprises could also engage with community and regional banks to explore the potential to purchase pools of loans from them in order to provide liquidity in these markets.

HUD Rental Assistance Demonstration Program

The Enterprises' participation in the Department of Housing and Urban Development (HUD) Rental Assistance Demonstration (RAD) program could help preserve affordable housing stock, but may also consequently offset private Federal Housing Administration (FHA) lenders' financing of RAD projects. MBA notes that outcomes will be determined by borrower preference of platform, but encourages FHFA to be wary of the Enterprises' participation negatively impacting production by private FHA lenders.

Workforce Equity

MBA encourages FHFA to develop standard industry definitions for affordable and workforce housing based on specific AMI levels in order to standardize how these products are counted toward the Enterprises' housing goals. MBA believes that the

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[2] MBA 2015 Annual Report on Multifamily Lending, issued in October 2016. Available for purchase at: https://www.mba.org/store/products/market-and-research-data/2015-annual-report-on-multifamily-lending.

proposed workforce rental housing equity product could encourage private equity investments in the 60-100 percent of AMI portion of the market. Nonetheless, MBA urges FHFA to clarify the scope of this proposed product with regard to appropriate levels of Duty to Serve credit as well as its targeted regions and populations. Further, MBA notes that the majority of renters have incomes at up to 100 percent of AMI, so FHFA guidance is crucial.

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MBA once again thanks FHFA and the Enterprises for their leadership in finding new and innovative ways to provide liquidity in secondary markets for affordable housing preservation, manufactured housing, and rural housing. We look forward to our continued work with you to ensure that borrowers in these markets have access to sustainable and reliable mortgage credit.

Should you have questions or wish to discuss these comments, please contact Dan Fichtler, Associate Director of Secondary and Capital Markets, at (202) 557-2780 or dfichtler@mba.org or Mark Dickemann, Policy Advisor, at (202) 557-2740 or mdickemann@mba.org.

Sincerely,

David H. Stevens, CMB
President and Chief Executive Officer
Mortgage Bankers Association