Minnesota Housing Finance Agency

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Equal Opportunity Housing and Equal Opportunity Employment

July 10, 2017 Submitted Electronically

Federal Housing Finance Agency
Constitution Center
400 7th Street SW
Washington, DC 20219

Re: Comments on Proposed Underserved Market Plans

To Whom It May Concern:

Minnesota Housing appreciates the opportunity to comment on the Fannie Mae and Freddie Mac Underserved Market Plans ("Plans"), and we are encouraged by the breadth and thoughtfulness of the plans.

Minnesota Housing is Minnesota's Housing Finance Agency (HFA). We assisted over 67,000 low and moderate income households in 2016, over half of which were through rental assistance and rental production activities. One of our five strategic priorities is to preserve housing with federal project based rental assistance. Most of these Section 8, USDA Rural Development and public housing and other units were built in the 1970s and 1980s, and many are at risk of being lost due to poor physical condition, limited owner or management capacity, or the opportunity to convert to market-rate housing. As part of this priority, we work regularly with interagency stabilization and preservation groups to assess the needs and risks in the state's overall portfolio to refine and enhance the priority criteria and selection process.

While many objectives of the Plans acknowledge the need to understand and partner with state and local agencies, we'd like to underscore these comments and make clear that nationwide solutions to underserved markets won't address the market needs without establishing strong connections to local markets. Underserved markets are not homogenous across the country, and preservation and rural needs in Minnesota will differ from those of states like California or even neighboring Midwestern states. For example, Minnesota has a significant population and proportion of Native American tribal lands compared to other states. In addition, the USDA Rural development portfolio in Minnesota is substantial and contains a large proportion of the country's developments with Section 515 mortgages that expire in the next few years.

The following comments are reflective of three key areas where we think that a partnership with local agencies and HFA's more broadly may be of value, including partnering with state and local programs in affordable housing preservation, supporting small multifamily loans in preservation and rural markets, and appropriately supporting low income housing tax credit development activities.

1. Partnering with state and local programs in affordable housing preservation

In both the Fannie Mae and Freddie Mac Plans, small financial institutions are often referenced separately from Housing Finance Agencies (HFAs). We encourage the GSEs to think of HFAs as small financial institutions for many of their proposed activities. Partnering with state HFAs can provide the connections to local market needs and expertise. In addition, our agency is the Performance Based Contract Administrator (PBCA) for HUD's Section 8 portfolio for the state of Minnesota and utilizes this administrative relationship to strategically allocate preservation resources. The GSEs should partner with PBCAs across the country in the Section 8 preservation statutory activities.

Both GSEs should consider developing a fully amortizing product to parallel FHA mortgage insurance products that is priced to reflect the stability of long term owners of developments with project-based rental assistance. The products should include low interest rates that are comparable to standard balloon products offered by the GSEs, these should offer higher loan to value ratios (up to 100% in certain markets compared to standard 85%), reduce the requirements for large restabilization reserves, and offer better baseline pricing on fully amortized loans. If there were better baseline pricing on fully amortizing loans for affordable loans, HFAs like Minnesota Housing would be in a better position to provide a second lien or other deferred financing.

1.1. Fannie Mae Plan

Preservation Statutory Activity: Other comparable State or local affordable housing programs

- Objective #1: Consider possible expansion of Fannie Mae's multifamily affordable housing (MAH) definition to support State and local efforts to preserve affordable housing for very low- and low-income families and purchase mortgages.

In the first year of the plan, Fannie Mae suggests it will conduct a review of at least five state and local affordable housing programs that currently do not meet the definition of MAH. As a result of this review, Fannie Mae will work with one to three of these states or local programs to consider a MAH transaction with the intentions of purchasing 10-15 loans in subsequent years.

At a minimum, Fannie Mae's affordable underwriting guidelines for state and local affordable housing programs should allow higher leverage and lower minimum debt service coverage, and should streamline the approval process to provide more liquidity.

Minnesota Housing is interested in partnering with Fannie Mae in this activity. We're encouraged that Fannie Mae has acknowledged that states and localities have different affordable housing needs and programs that are designed to meet these needs, but this results in differing standards across different entities. The proposed numeric goals of partnerships and loan purchases are conservative, but given there is no precedence for this activity, the goal may be a reasonable starting place.

Recognizing that there are regulatory and conservatorship limitations, we encourage Fannie Mae to consider solutions beyond first position amortizing debt, such as a soft second or even deferred solution, recognizing that mission driven financial transactions often do not fit within standard loan products.

1.2. Freddie Mac Plan

Freddie Mac does not specifically address the statutory activity of "other comparable state or local affordable housing programs" in the Plan, and focuses on federally assisted programs, including LIHTC, Section 8 and USDA Section 515 loans. As such, even if Freddie Mac does not address state and local programs, partnering with HFAs such as Minnesota Housing in identifying local preservation needs of these federal programs is crucial to channel capital to communities that need it the most.

Developing a new offering to close capital gaps for Section 8 transactions and RAD are important given the current uncertainties with tax credit pricing and federal appropriations. These products need to have terms conducive to supporting deep subsidies, such as lower interest rates, higher loan to value ratios (up to 100%), and better base line pricing for affordable products. Again, recognizing that there are regulatory and conservatorship limitations, we encourage Freddie Mac to consider solutions beyond an amortizing first mortgage, such as a soft second or even deferred activity to help to achieve the deep affordability.

2. Supporting small multifamily loans in preservation and rural markets

Minnesota Housing supports the GSEs to develop a preservation funding model and to open securitization models to purchase existing small multifamily loans. Preservation products should include below market interest rates, low transaction costs, and could include or leverage grants for credit enhancement and underwriting costs. Purchasing small multifamily loans from HFAs that specifically serve rural or preservation markets would help to increase liquidity. To facilitate and streamline purchasing of small multifamily loans from entities such as HFAs, the GSEs should both develop standardized lending templates into which loans can be originated.

2.1. Fannie Mae Plan

Preservation Regulatory Activity: Financing of small multifamily rental properties

- Objective #1: Design and grow an effective approach to make purchases of small multifamily loans from financial entities with $10 billion or less in assets and increase purchases.

Fannie Mae suggests conducting outreach and research to determine an effective approach to increase purchases of small multifamily loans from institutions with $10 billion or less in assets, first by partnering with DUS lenders to build or enhance networks with the goal of developing a pilot for loan purchase of at least 45 loans. In the plan, Fannie Mae notes:

> *In the event that there are less than two DUS lenders interested in this undertaking, establish at least two "Special Affordable Small Loan Lender" relationships as a pilot program with other financial entities that would have the capacity and knowledge to become a Fannie Mae lender, with a special focus on affordable housing preservation and/or small loans, (e.g., Federal Home Loan Banks (FHLB) with member banks that meet FHFA's asset size or a national CDFI with small multifamily loan expertise).*

Fannie Mae should not limit outreach to DUS lenders to start, and instead should establish at least two "Special Affordable Small Loan Lender" relationships from the start for creating the pilot program.

To address preservation of USDA Rural Development Section 515 properties, which typically are smaller properties, Fannie Mae should partner with USDA, but must keep in mind that RD loans cannot be subordinate to other financing so it will be difficult to develop a permanent loan solution.

2.2. Freddie Mac Plan

Preservation Regulatory Activity 5: Financing of Small Multifamily Rental Properties

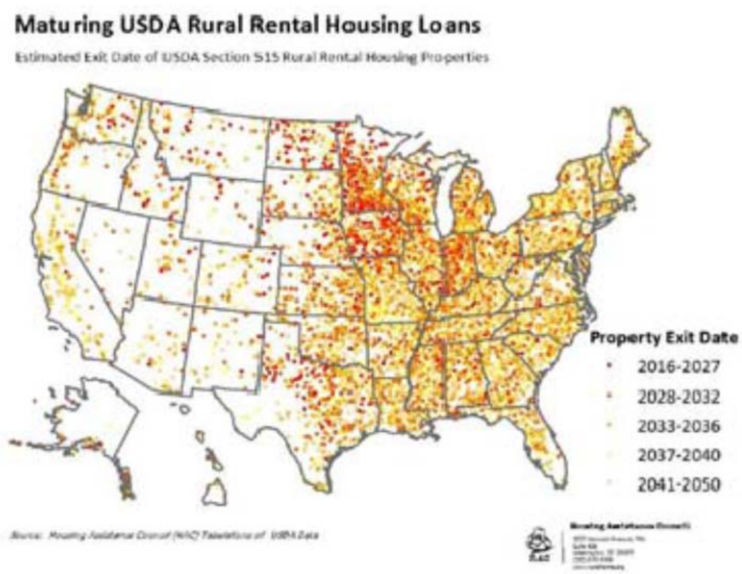
- Objective A: Develop a new offering for small balance loan pool securitization
- Objective B: Develop a new offering for small balance loan pool credit enhancement
- Objective C: Develop a new offering for small balance loan pc securitization
- Objective D: Purchase/guaranty seasoned small balance loans from small financial institutions

To address the preservation regulatory activity of financing small multifamily rental properties, Freddie Mac intends to develop a new suite of offerings for five to 50 unit properties. The Small Balance Loan (SBL) platform for pooling 5-50 unit properties should increase liquidity to the market through the pool securitization and purchasing or guaranteeing of SBLs from small financial institutions (like HFAs). We encourage expanding this tool for the portfolios of small financial institutions, as it will provide a standardized securitization mechanism to work with small financial institutions. We encourage terms that are flexible. Not all preservation transactions will match a cookie cutter approach. For example, LTV limits may need to be higher, and lengths of loan term and amortization may need to be longer.

Rural Regulatory Activity 1: High-Needs Rural Regions

- Objective G: Develop a loan offering to work with USDA Section 515 properties
- Objective H: purchase loans on USDA Section 515 properties

There are no counties in Minnesota that are considered High Need for Duty to Serve purposes. However, as indicated by the map of maturing rental housing loans below (from the plan), Minnesota, and the upper Midwest are the epicenter of USDA loans maturing in the next decade.



USDA Rural Development Section 515 plans are a key objective both from a preservation standpoint as well as a small property perspective. We support the objective to develop a new offering for USDA Section 515 preservation in year one, and encourage Freddie Mac to accelerate development of loan purchase activities to address the maturing mortgage crisis before 2020, and expand this activity to include rural activities outside of the High Needs rural regions.

3. Supporting Low-Income housing Tax Credit development through resumed equity investment

As mentioned above, Minnesota does not have any High Need rural areas (as defined by the final DTS rule). However, Minnesota has a large portfolio of tribal sponsored tax credit developments (falling within the High Need rural populations definition). These developments are in low CRA demand areas, and are often either structured as permanent supportive housing or as a portfolio of single family homes that lend themselves well to eventual tenant ownership after the tax credit compliance period. If feasible, we encourage balancing the LIHTC activities that meet the definition of High Need rural areas and populations with preservation deals that are in other rural areas (yet are still in low CRA demand areas). We encourage the GSEs to partner with state equity funds, such as the Minnesota Equity Fund to develop relationships in these areas. In addition, we encourage the GSEs to work with HFAs like Minnesota Housing to collect data on LIHTC investments in sub markets to gain a better understanding of the parameters of the developments, costs and price differentials.

3.1. Fannie Mae Plan

Preservation Statutory Activity: Low Income Housing Tax Credits

- Objective #1: Increase purchases of mortgages secured by LIHTC properties

In the preservation market, Fannie Mae has an objective to increase the purchases of mortgages secured by LIHTC properties, and states a goal of purchasing 40-70 loans secured by LIHTC properties. Given the three year baseline of 56 loans, we encourage Fannie Mae to consider a higher goal in year 1 as additional product enhancement needs are identified, even amidst market uncertainty. If the market is not able to respond as a result of potential tax reform or federal budget cuts to housing programs, the plan could be amended in year's 2 and 3. In addition, we encourage flexibility in Fannie Mae's standard underwriting guidelines and risk standards.

Additional Activity: Invest in LIHTC properties to facilitate the provision of affordable multifamily housing in rural areas

- Objective #1: Acquire equity investments in LIHTC properties to facilitate the provision of affordable rural areas housing

In the rural market, Fannie Mae has an objective to acquire equity investments in LIHTC properties in rural areas particularly associated with preservation statutory or regulatory activities. We agree that the research up front to identify goals and identify partners and best-in-class syndicators with a year 2 goal of 5 equity investments and year 3 goal of 10 equity investments. We encourage the plan to expand to include High Need rural populations in addition to rural areas, if the intent of this objective is limited to High Need rural areas.

3.2 Freddie Mac Plan

Preservation Statutory Activity 1: Low Income Housing Tax Credits (Debt)

- Objective A: Provide liquidity and stability through LIHTC loan purchases
- Objective B: Develop a new offering with a more efficient origination path for LIHTC preservation.
- Objective C: Develop a new offering to close capital gaps for LIHTC transactions

In the preservation market, Freddie Mac proposes to develop a new offering to close capital caps for LIHTC transactions left by the reduction in available LIHTC equity, developing a pilot offering term sheet to Targeted Affordable Housing seller/servicers in year 1. Freddie Mac should consider expanding this offering to include small financial institutions such as HFAs as partners.

Rural Regulatory Activity 1: High Needs Rural Regions

- Objective J: Develop LIHTC equity investment offering
- Objective K: Engage in LIHTC equity investment

Rural Regulatory Activity 2: High Needs Rural Populations

- Objective D: Develop LIHTC equity investment offering
- Objective E: Engage in LIHTC equity investment

In the rural market, Freddie Mac has identified an objective to research, develop an equity offering, and engage in equity investment for high needs rural areas and populations. This is an area that we agree some additional research is needed to identify syndicators that are doing this type of development well. However, we encourage the balance of equity investments in high needs rural areas and populations with other rural investments in low CRA demand areas.

Thank you for the opportunity to comment and participate in the Duty to Serve process. If you have any questions or want to discuss potential partnerships, please do not hesitate to contact me.

Sincerely,

Mary Tingerthal
Commissioner