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Fannie Mae
3900 Wisconsin Ave, NW
Washington, DC 20016

Re: Comments on Fannie Mae's Proposed Duty to Serve Underserved Markets Plan

On behalf of the National Council of La Raza (NCLR), please accept these comments on the content of the Proposed Duty to Serve Underserved Markets Plan of Federal National Mortgage Association (Fannie Mae). NCLR is the largest constituency-based Hispanic organization in the U.S., dedicated to improving life opportunities for the nation's 56 million Hispanics and, as such, we have a deep interest in improving Hispanics' access to mortgage financing and homeownership. NCLR applauds Fannie Mae for accepting the challenge to better serve minority markets and low-income households while upholding an obligation to safety and soundness under conservatorship.

Background

In 2015, there were 56 million Hispanics in the U.S., making up 17.6% of the country's total population.[1] The U.S. Census Bureau projects the Hispanic population to reach 28.6% by 2060.[2] In 2015, the median household income of Hispanic households increased to $45,148, the highest it has been since 2006, while the poverty rate for Hispanics dropped to its lowest rate in 10 years.[3] Despite these recent economic gains, Hispanic families, the neighborhoods in which they live, and other communities of color continue to experience the spillover effects of the foreclosure crisis while also being locked out of new originations in the housing market. Latino homeownership, the single greatest source of wealth in the community, reached a high-water mark of 50% in 2006, only to see 66% of its housing wealth disappear by 2009 due to the foreclosure crisis.[4] Nearly 10 years later, the Hispanic homeownership rate remains low, at 46%, and Hispanic borrowers are still denied a mortgage at a higher rate than white borrowers.[5] Research shows Latinos will account for 40 percent of net new households within the next 10 years,[6] suggesting that a failure to incorporate the needs of Hispanics and low-income communities into the nation's federal housing policy will have negative consequences for all Americans and the U.S. economy.

NCLR has a long history in the field of housing and community development on which we base these comments and recommendations. Since the 1980s, NCLR began testifying on Hispanic housing conditions and advocating for more flexible underwriting guidelines and affordable housing products and actively operates the following programs in the field:

- The NCLR Homeownership Network (NHN), a network of more than 50 community-based organizations (CBOs), is in its 20th year of providing homeownership counseling services to 35,000 very low-, low-, and moderate-income families annually and averages more than 1,500 closings a year.

- The Raza Development Fund (RDF),[*] NCLR's wholly-owned Community Development Financial Institution (CDFI), provides capital to NCLR Affiliates for community facilities including charter schools, day care, primary health care, and affordable housing development. RDF annually loans $37.4 million and, since its inception in 1999, has leveraged approximately $2 billion in private capital investment.
- NCLR formed an arm's length corporation, Hogar Hispano, Inc. (HHI),[†] that is repurposing Real Estate Owned (REO) properties nationally. Since 2013 HHI has acquired and repurposed over 1,300 properties through donation and purchase. In addition, it created a foreclosure prevention program that purchases distressed mortgages to keep families in the home. Working with NCLR and private capital sources, it has acquired over 550 loans to date and is actively bidding on additional loan pools. Its modification rate has been higher than private purchasers because of the comprehensive programming—all families served by HHI receive housing counseling from the NCLR Homeownership Network.

In light of NCLR's experience, we submit the following comments on whether Fannie Mae's proposed plan will effectively serve the underserved markets if carried out as proposed, and our suggested modifications that Fannie Mae should consider making to its proposed Plan to better serve the following underserved markets.

General Comments and Recommendations

As proposed, Fannie Mae's Plans to serve the three Underserved Markets position the Enterprise to begin addressing the needs of the underserved markets. NCLR believes that the proposed activities and objectives indicate that the Enterprise is adopting appropriate measures. However, we believe that while some activities are adequate, there are objectives and activities that could go a step further to provide more meaningful access in underserved markets. Therefore, we propose specific recommendations in two specific Underserved Markets, Affordable Housing Preservation and Rural Housing, to improve Fannie Mae's ability to target and tailor the proposed activities to adequately serve very low-, low-, and moderate-income households in these markets.

In the Affordable Housing Preservation Market, we provide comments and recommendations to enhance the efficacy of objectives under the activities relating to the Low-Income Housing Tax Credit, financing for multi-family rental properties, Shared-equity programs, and the purchase and rehabilitation of distressed properties. NCLR provides specific recommendations for

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[*]Raza Development Fund is a CDFI that invests capital, provides technical assistance and creates financing solutions to increase opportunities for the Latino community and low-income; see more at http://razafund.org/.

[†] Hogar Hispano is an independent 501(c)(3) economic development corporation. It provides community and economic development resources, technical expertise, and service to local and national organizations conducting programs designed to improve the quality of life for Latino and other underserved communities; see more at http://hogarhispanoinc.org/.

activities relevant to promoting Residential Economic Diversity. In the Rural Housing Market, we offer recommendations to enhance the efficacy of outreach and market research, enhance the development of institutional anchors, and identify opportunities to work with scalable models of financial counseling in high-needs rural regions.

We recognize and applaud Fannie Mae for including outreach to mission-oriented, community-based non-profit developers to understand best practices and successful strategies, and identify the challenges and opportunities to loan deliver under **Objective #1 of the Regulatory Activity: Purchase or Rehabilitation of Certain Distressed Properties.**

While Fannie Mae has included **"developing and delivering education to affordable housing program administrators"** on homebuyer opportunities, and to **"enhance and maintain Fannie Mae's consumer-facing resources to educate potential homeowners",** we were disappointed that Fannie Mae did not consider a platform or mechanism for explicitly integrating homebuyer education through HUD approved housing counseling agencies in the aspect of the objective about consumer-facing education and resources. NCLR recommends that housing counseling be integrated into the regulatory activities in the Affordable Housing Preservation, Rural Housing, and Manufactured Housing Markets.

Duty to Serve Underserved Markets Proposed Plan for the Affordable Housing Preservation Market

<u>Strategic Priorities</u>

We applaud Fannie Mae for identifying strategic priorities to guide its service to the Affordable Housing Preservation underserved market. However, we would like to share our recommendations for two of the priorities, including ways that Fannie Mae can build on previous pilot programs, ensure the expansion of pilot programs that work, as well as which partners in the market Fannie Mae should be engaging.

Test and Learn: Fannie Mae has stated that it will test and evaluate adjustments to its own products and programs to identify ways to serve these markets better within existing business activities. While this second look at existing loan products will be used to identify enhancements to increase liquidity, it is unclear whether engaging in more pilot programs without a definitive timeline and plan for expansion will result in enhanced capacity within the primary market.

- **Recommendation:** Fannie Mae should designate certain test and learn activities as not only time-bound but also platforms for innovation that Fannie Mae is committed to expanding to enhance access to credit and affordable housing for the very low-, low-, and moderate-income communities living in the underserved markets. There is already an example of a Fannie Mae-led homeownership pilot program targeting families earning below 80% of Area Median Income (AMI): Home to Own. Fannie Mae has a long history of testing the feasibility of new approaches to homeownership for low-income families, such as affordable housing products that incorporate more flexible underwriting guidelines, pre-purchase housing counseling, and credit enhancements including down payment assistance. In the early 1990s, NCLR partnered with Fannie Mae and First

InterState Bank to design and implement one of the earliest of such pilot projects. In conjunction with the Arizona Housing Alliance, a coalition of NCLR affiliates, a model called "Home to Own" was implemented. According to an independent evaluation of the program, this pilot provided mortgages to nearly 500 families, all of whom earned below 80% of AMI, with more than 70% going to families below 60% of AMI. [7] In addition, the Home to Own portfolio of mortgages performed very well nearly three years after origination, demonstrating a default rate of approximately 1%, three percentage points lower than the overall industry average for delinquencies at the time.

Partner and Innovate: Fannie Mae has stated that this plan reflects a commitment to listen to and work closely with partners in the market.

- **Recommendation:** Fannie should reach out and invest in community-based non-profits, such as HUD approved housing counseling agencies, to meet the objectives listed in the Proposed Plan. While Fannie Mae has existing partnerships with HUD Intermediary organizations, such as NCLR, we believe Fannie Mae should seek out and extend partnership opportunities existing, community-based leaders, practitioners and non-profit entities will lead to meaningful impact in the affordable housing preservation market.
- **Recommendation:** Based on the success of the Home to Own pilot, we recommend that Fannie Mae consider a similar approach and partnership structure for testing its own products and programs, as outlined in its Plan for the Affordable Housing Preservation market.

IV. Activities and Objectives

Recommendation: Integrate Housing Counseling into Fannie Mae's proposed activities and objectives in the Affordable Housing Preservation Underserved Markets Plan to Increase Positive Borrower Outcomes

Housing counseling should be integrated into Fannie Mae's proposed activities to educate potential homeowners, especially if they are purchasing a rehabilitated REO property and entering into shared-equity financing agreements. Fannie Mae should make pre-purchase counseling a requirement for very low-, low-, and moderate-income households who would become homeowners as a result of the financing opportunities supported by Fannie Mae's Plans. One way to do this would be for Fannie Mae to require housing counseling on any mortgage loans backed by properties purchased by the target income categories of the Duty to Serve program.

> **Rationale:** Numerous studies have demonstrated the value of housing counseling to both borrowers and lenders.[8] Community-based housing counselors, as trusted sources of accurate information, can help borrowers better understand their options, and allow them to seek help in a timely manner. For example, during the foreclosure crisis, the intervention of a trusted counselor was necessary for many victims of predatory lending practices who would not have responded to direct correspondence with their bank or loan servicer due to significant mistrust and the distress of being underwater on a mortgage.

Likewise, housing counseling agencies can help to ensure that Enterprise Duty to Serve activities are accessible to borrowers in underserved markets.

Pre-purchase counseling can help reduce the likelihood of default and foreclosure by helping individuals determine if they are ready for homeownership, and by connecting them with safer and more affordable mortgage products. One study has shown that low- and moderate-income homeowners who have voluntarily received housing counseling services show improved loan performance, and that this is attributable to the type of mortgage contract, budgeting and credit management skills taught by counselors. [9] Once in the home, active post-purchase counseling can address early stage delinquencies.[10] At the same time, if homeowners do struggle with their mortgage payments, housing counseling can be an effective intervention to help them avoid foreclosure. One recent report[11] reviewed outcomes associated with 240,000 loans that received counseling under the National Foreclosure Mitigation Counseling program. Counseled clients were 2.83 times more likely to receive a loan modification, and 70% less likely to redefault on a modified loan. Counseled clients had modifications that saved them an average of $732 per year compared to modifications given to non-counseled borrowers.

D. Statutory Activity: Low-income housing tax credits under section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42.

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

SMART Factors

In Year One of the Plan, Fannie Mae will purchase between 40 and 70 loans secured by LIHTC properties.

<u>Baseline</u>

Fannie Mae has established a baseline, based on an average of the number of loans on properties in their active, 10-year, tax credit period purchased by Fannie Mae over the last three years, which amounts to is 56 loans. If 56 loans make up the baseline, it is unclear why Fannie Mae has chosen to purchase between at a minimum, 40 and at a maximum, 70 loans. We recommend that Fannie begin with a purchase of between, at a minimum of 56 loans and, at a maximum, 86 loans. Performance will be evident if Fannie purchases any number of loans higher than the baseline of 56 loans.

<u>Process</u>

Fannie Mae will identify two trends and two product enhancement needs in the LIHTC industry, and propose ways to address them.

- **Recommendation:** Fannie Mae should clearly state how they intend to identify trends and product enhancements, how they will be chosen each year, and what would happen if only one trend was identified or three enhancements were needed each year.

In Year Two of the Plan, Fannie Mae will increase the total volume of Fannie Mae's loan purchases between five and 10 percent over an updated baseline of three years.

- **Recommendation:** Fannie Mae should clearly articulate the reasoning behind the increase of 5-10% in loan purchases, including any market analysis or studies that would show this increase would be appropriate and have a meaningful impact on the market.

In Year Three of the Plan, Fannie Mae will continue to identify trends and product enhancement needs in the LIHTC industry.

- **Recommendation:** By Year 3, Fannie should consider finalizing or setting up LIHTC purchase agreements in markets where there has been success and where it would be strategic for Fannie Mae to purchase more mortgages secured by LIHTC properties.

<u>Income Levels</u>

For all Years of the Plan, this objective will target very low-, low-, and moderate-income households. According to the Duty to Serve statute, very low, low-, and moderate-income are defined by a specific percentage (x%) of the Area Median Income (AMI).

- **Recommendation:** Fannie Mae should consider, in this objective, where a significant lack of liquidity for mortgages secured by LIHTC properties exists in the current market, define the measure, and define a target household income based on those areas. For example, if 70% of LIHTC properties are located in areas where families earn below 60% AMI, then Fannie should consider a strategic objective that makes enhancements to a product that would target households living at or below 60% of AMI. In addition, Fannie Mae could consider increasing liquidity in areas where doing so would also promote residential economic diversity. For example, if there is a significant lack of liquidity for LIHTC financing in high-opportunity areas where households earning below 80% of AMI reside, Fannie Mae can consider articulating this as a specific strategy.

F. Regulatory Activity: Financing of small multifamily rental properties (12 C.F.R. § 1282.34 (d) (1)).

1. 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 proposes to work with 10 financial entities, with a goal to purchase 45 loans by Year 3.

- **Recommendation:** Fannie Mae should consider and layout alternative plans and scenarios, to ensure that it completes purchase 45 loans by Year 3 and that it has effectively provided liquidity to lenders with $10 billion or less in assets. For example, it should discuss in its plan how it will identify the 10 financial entities, and select 5 of the

10 identified lenders to work with Fannie Mae. It should consider an action plan for reaching small lenders that are interested or discuss an alternative should less than 5 of the identified lenders are interested in the pilot.

- **Recommendation:** Fannie Mae should make considerable efforts to reach CDFIs that are active in the small multifamily rental market. There are CDFI programs that finance small multifamily rental properties. For example, the Raza Development Fund has experience financing small multifamily loans using innovative financing tools, and has successful in preserving affordable housing in low-income Latino neighborhoods. One such project is financing the rehabilitation of Villa de Clara Vista in Portland, Oregon, to provide affordable housing to individuals and families falling under 60% of the Family Median Income threshold. Raza Development Fund refinanced a note than encompassed six parcels, but released three of those parcels to NCLR Affiliate Hacienda Community Development Corporation to allow for the rehabilitation of a 25-unit apartment building, a management office, and a community facility.

I. Regulatory Activity: Shared equity programs for affordable housing preservation (12 C.F.R. § 1282.34 (d) (4)).

1. 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

Fannie Mae should engage with existing Community Land Trusts, HUD-certified housing counselors, mission-oriented affordable housing developers and community-based leaders, in addition to cross-functional industry representatives, who can provide context for the market opportunities that exist. Fannie Mae should consider holding one annual meeting with an established program of check-in and sharing outcomes/progress to maintain the feedback loop.

Fannie Mae should explain how market research and analysis will inform the decision to work in specific geographic areas or in a variety of geographic areas. They should explain how they would come to choose specific markets and perform and report to FHFA a cost-benefit analysis of working with lenders with footprints of different sizes - local, regional and national lenders-on this activity. One NCLR affiliate, Mission Economic Development Agency[‡] has been in operation for more than 15 years, and has assisted many low-income households become homeowners through the Below Market Rate Ownership Program in San Francisco, California. This program utilizes shared appreciation loans repaid fully by the homeowner when selling their home. MEDA prepares participants to become ready to rent or to own through the Below Market Rate Ownership Program by providing financial coaching services. They are equipped to provide

[‡] MEDA's is a nonprofit organization with a mission is to strengthen low- and moderate-income Latino families by promoting economic equity and social justice through asset building and community development in San Francisco, CA. Among the programs they run are community real estate development, financial capability, business development and workforce development; see more at http://medasf.org/programs/.

these services in English and in Spanish, to accommodate the needs of the community they serve.

3. 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

Fannie Mae should define what a variance would be, how such an adjustment would expand access to financing (based on the research according to the first two objectives under this activity), and what category of variance (loan terms, credit sources, underwriting guidelines, length of loan term) would it consider.

4. Objective #4: Purchase shared equity mortgage loans

SMART Factors

In Year One of the Plan, Fannie Mae will purchase between 200 and 250 shared equity mortgage loans.

<u>Baseline</u>
Fannie Mae has not established a baseline for this activity for a few reasons. Fannie Mae's current loan guidelines do not require an affordability term of at least 30 years after recordation as do the shared equity loans qualifying for Duty to Serve credit under the Regulations. Moreover, Fannie Mae does not identify or track those loans acquired, which may happen to have an affordability term of at least 30 years.

- **Recommendation:** Despite these reasons, Fannie Mae should to establish a baseline**,** based on the research and analysis to be completed in earlier objectives, in order to demonstrate a meaningful impact on the market.

K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C.F.R. § 1282.34 (d) (7)).

We applaud Fannie Mae for choosing to take on the Regulatory Activity of facilitating the financing of the purchase or rehabilitation of distressed assets, such as REO (Real Estate Owned) properties, by nonprofits. We recommend that Fannie Mae expand its nonprofit REO sales program that currently operates in nearly 20 Metropolitan Statistical Areas (MSAs). NCLR believes it is critical to engage practitioners who understand local market dynamics and the communities where development and rehabilitation takes place, to ensure the delivery of loans that finance the purchase or rehab of distressed properties. In our comments to follow, we appreciate the opportunity to share a model that NCLR has established, and one that has produced results in this market.

1. 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 lending products for distressed properties, facilitate the delivery of loans, and maintain a communication feedback loop to facilitate a continuous improvement process

SMART Factors

Fannie Mae has stated in its Plan that it will engage 10 Fannie Mae customers and 10 market stakeholders including, but not limited to, non-profit, tribal, and government-related organizations in order to understand best practices and successful strategies, and identify challenges and opportunities related to the delivery of loans that finance the purchase or rehabilitation of distressed properties.

In FHFA's most recent report on non-performing loan sales (NPL sales) by Fannie Mae and Freddie Mac, FHFA reported more positive borrower outcomes overall through the most recent sales and identified NPL sales characteristics that have fostered best practices for helping homeowners with a distressed mortgage avoid foreclosure or navigate the most appropriate loss mitigation options available. FHFA found that loans on properties where the borrower is still occupying the residence are more likely to be modified than those where the borrower has abandoned or vacated the property. In addition, the NPLs sold to a servicer were less likely to result in the foreclosure of distressed properties than the NPLs held by the Enterprises, and that NPLs in which the home was occupied by the borrower (mortgage holder) were less likely to result in foreclosure than for NPLs where the home was vacant.[12] FHFA also found that NPLs resulted in a higher rate of non-foreclosure outcomes (20.8%) for the borrower (mortgage holder) when the servicer had established contact with the borrower, co-borrower, or trusted advisor, such as a housing counselor or attorney ("Right Party Contact"), than in situations where the servicer did not establish right party contact (9.2%). In contrast, when a servicer was unable to establish contact, the rate of foreclosure was nearly 20 percentage points higher (36.4%) than when a servicer was able to make right party contact (17.3%).

Recommendations: NCLR recommends that among the 10, Fannie Mae should include nonprofits such as Hogar Hispano, Inc, and partners of the National Community Stabilization Trust,[§] which offer high-touch and mission-oriented services for homeowners still occupying distressed assets. The benefit of a nonprofit in execution is their mission-based commitment to keeping families in place, and uses principal forgiveness to increase the likelihood that a family can continue making a mortgage payment and stay in their home. If it is in their best interest. If the family does not want to stay or cannot stay in their home, housing counselors are available to assist in thinking through their best options and identify support services that will help with the transition. In addition, nonprofit executions are committed to increasing homeownership opportunities with REO assets through vacant homes in a purchased portfolio or as a result of a deed in lieu, short sale or foreclosure, it is a top priority to put them back into the market as a homeownership opportunity for families with incomes below 120% AMI.

[§] The National Stabilization Trust is a national nonprofit organization created to connect servicers and investors holding foreclosed properties with local organizations and coalitions working to stem the decline of communities with high concentrations of vacant and abandoned foreclosed properties; see more at http://www.stablecommunities.org/ncst.

Fannie should continue to support models such as the one developed by Hogar Hispano, Inc. (HHI), which promotes neighborhood stability through an intensive foreclosure prevention program for homeowner-occupants of distressed mortgages, and preserves affordability by placing a cap on the income threshold of homebuyers who purchase rehabilitated distressed properties. Specifically, this model requires that any property resale must meet specific affordability requirements and requires housing counseling for the home buyer purchasing the home. More specifically, HHI requires an income of no more than 110% AMI, which takes investors out of the universe of potential purchasers. This is one of many models that has proven successful, including those run by some NCLR Affiliates and other local neighborhood stabilization organizations.

Fannie Mae should consider additional outlets and methods to expand home buyer and housing program administrator awareness and understanding of REO purchase and financing options. It should not only include a consumer-facing webpage but also partnership and investment in building the capacity of CDFIs and non-profit developers that are practitioners in the affordable housing preservation space.

2. Objective #2: Increase access to Fannie Mae financing by making changes to the HomeStyle® Renovation loan product that increases the population of loans eligible for sale to Fannie Mae, simplify product parameters and loan requirements, and maintain appropriate risk controls.

SMART Factors

- Fannie Mae will create variance terms for one or more changes to Fannie Mae loan products that support the purchase or rehabilitation of distressed properties, particularly HomeStyle Renovation.
  - **Recommendation:** Fannie Mae should describe how variance terms will be identified and considered. One recommendation would be for Fannie Mae to consider changes to products that would facilitate more purchases of loans of lower values. These would include loans between $50,000-$100,000 in value.
- Fannie Mae will conduct one economic and operational impact analysis to determine feasibility of Fannie Mae purchase of loans under the variance terms.
  - **Recommendation:** Fannie Mae should describe what an example of a variance would be in Fannie Mae loan products, including the Homestyle Renovation. In addition, Fannie Mae should discuss where these variance terms will be derived from. One way to identify these terms would be through communications and best practices collected from practitioners through the roundtable discussion, as suggested in Objective #1.

3. Objective #3: Increase the purchase of HomeStyle Renovation loans originated for the purpose of purchasing or rehabilitating a distressed property by individuals, non-profits, and other mission-oriented entities.

SMART Factors

In Year One of the Plan, Fannie Mae will:

- Purchase between 150 and 200 HomeStyle Renovation mortgage loans that were originated for the purchase or rehabilitation of a Fannie Mae REO property.

Baseline
Fannie Mae does not identify or track HomeStyle Renovation or any other mortgage loans delivered to identify whether the financing is used for the specific purpose of purchasing or rehabilitating distressed properties. As a result of an analysis of its portfolio, Fannie Mae has determined that in 2016, 119 REO properties were purchased and financed with a Fannie Mae HomeStyle Renovation mortgage loan.

In Year Two of the Plan, Fannie Mae will:

- Purchase between 200 and 250 HomeStyle Renovation mortgage loans that were originated for the purchase or rehabilitation of a distressed property using a revised Baseline.
    - **Recommendation:** Fannie Mae should describe how the baseline will be revised and identify the measures or analyses the revision will be based upon.

Additional Comments
Fannie Mae should define and distinguish entities that are individuals, nonprofits, and mission-oriented entities. Fannie Mae should state if these entities include nonprofit developers, housing counseling agencies, affordable housing developers, private investors and CDFIs.

Fannie Mae should increase access to nonprofits in the following ways:
- Give nonprofits first-look access and meaningful discounts
- Give nonprofits access to a broad geographic selection, which includes the expansion of the number of MSAS where nonprofit, minority-owned, and woman-owned entities can place bids
- Make pricing competitive for nonprofits with a mission to rehabilitate and sell properties to low-income households as a homeownership opportunity within their neighborhoods to compete with large institutional investors that would purchase and rehabilitate the properties to generate new revenue from rental properties.

M. Residential Economic Diversity Activity (12 C.F.R. §§ 1282.32 (d)(3) and 1282.36(c)(3)).

1. Objective #1: Establish a pilot program to proactively increase Fannie Mae's purchase of loans and investments that promote Residential Economic Diversity (RED) in conjunction with other Statutory, Regulatory, and Additional Activities as provided under the Plan.

Fannie Mae has not proposed a baseline for activities that promote RED. Fannie Mae should identify a baseline for these activities, as well as promote activities that take race into account.

The nation's homeownership rate is at a historic low point, just under 64%, and the rates for Latino and Black households are even lower.[13] In addition, the opportunity to find an affordable place to live, and to thrive economically in a place, does not remain equal for everyone. It is exacerbated by the effects of residential segregation, especially for Black, Latino, and other low-income households.[14] While Fannie Mae may not be able to reverse the effects of a tight credit environment following one of the worst economic recessions in history or historical policies such as red-lining, Fannie Mae can make a meaningful impact in the Affordable Housing Preservation Market by addressing and considering racial demographics of markets where Plan activities promote RED.

Fannie Mae's Plan, which includes the promotion of RED as a reflection of its loan purchases and investments, does not define RED activities that account for race. NCLR believes that Residential Economic Diversity activities should explicitly account for race. Fannie Mae should consider activities which explicitly account for race that are included among or integrated into the statutorily enumerated activities in the Affordable Housing Preservation Market Plan.

Duty to Serve Underserved Markets Proposed Plan for the Rural Housing Market

IV. Activities and Objectives

A. Regulatory Activity: Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c) (1)).

NCLR applauds Fannie Mae for including housing counseling and financial counseling in their objectives increase homeownership opportunities and meet the housing needs of high-needs rural regions. However, Fannie Mae should consider how they will facilitate informed and meaningful relationships between lenders and nonprofit cross-functional industry representatives, and how they will reach out to trusted leaders and community organizations in order to target high-needs rural regions further expand the opportunities in high-needs rural areas. In addition, we offer suggestions for specific states and identify the partners needed to achieve the following objectives.

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

Fannie Mae should conduct outreach and market research with cross-functional industry representatives and include community-based nonprofit organizations and HUD-approved housing counseling agencies that are familiar with communities in high-needs rural regions and are trusted within these communities. Fannie Mae could should facilitate stronger relationships between lenders and trusted community-based organizations (CBOs) to foster partnerships that will target high-needs rural regions that have been underserved by mainstream financial institutions for significant time periods.

In specific high-needs rural areas such as the colonias, [**] Hispanics account for more than 60% of residents. Residents in rural areas, especially in the colonias, have limited access to traditional financing and are often targeted by predatory lenders offering higher-priced loan products and Contract For Deed financing options.[15] Fannie Mae should consider partnerships with CBOs that offer bilingual and culturally competent services to effectively narrow the divide and build familiarity between colonias residents and regulated lending institutions that can provide safe and affordable alternatives to privately financed financial traps.

NCLR recommends that Fannie Mae consult with CBOs, including NCLR Affiliates Self-Help Enterprises (SHE) out of Visalia, California and Housing America Corporation in Somerton, Arizona which work in the areas of health and housing in rural regions of Texas, Arizona, and California.

- **Example of SHE[††]'s work in California:** SHE focuses its work on the rural communities located in the counties of Stanislaus, Merced, Mariposa, Madera, Fresno, Kings, Tulare and Kern. The average median purchase price of homes purchased within these communities is $190,142. With the average per capita income of $19,216**, families do not earn enough to qualify for a home1 SHE maintains a list of more than 10,000 potential participants- households who make up their pipeline of participants interested in one of 5 housing programs offered by SHE. The programs include first-time homebuyer, affordable rental, mutual sweat equity new construction, and housing rehabilitation. With over 50 years of experience working with households in the San Joaquin Valley, SHE has credibility and understands how to target their services to low-income households in rural regions. Approximately 8,000 participants have become homeowners through one of SHE's programs. She requires that participants in their programs, including first-time homebuyers of an FHA or USDA loan and families looking to modify their existing mortgage, to complete home buyer education in tandem with financial coaching prior to closing.

9. Objective #9: Implement anchor institution partnerships to increase homeownership opportunities in high-needs rural regions (Partner and Innovate).

SMART Factors

In Year One of the Plan, Fannie Mae will:

[**] In 1990, the Cranston-Gonzalez National Affordable Housing Act (NAHA) created a federal definition for colonias, which is still used for most Department of Housing and Urban Development (HUD) programs today. Under NAHA, a colonia is an "identifiable community" established before November 28, 1989 in Arizona, California, New Mexico, or Texas within 150 miles of the U.S.-Mexico border that lacks potable water and sewage systems and decent housing; see more at http://www.ruralhome.org/storage/documents/rpts_pubs/ts10_border_colonias.pdf.

[††] Self-Help Enterprises is nonprofit community development organization whose mission is to work together with low-income families to build and sustain healthy homes and communities; see more at http://www.selfhelpenterprises.org/.

#1 Identify and engage two potential anchor institution partners in target geographies.

- Comment: NCLR believes that this is a step in the right direction.

#2 Develop one replicable service-learning program model and training curriculum.

- **Recommendation:** Fannie Mae should consider describing the purpose of and audience for the program model and training curriculum in its Plan.

#3 Identify and engage three lenders, three non-profit counseling organizations, and two down payment assistance and/or individual development account (IDA) program partners.

- **Comment:** NCLR applauds Fannie Mae for identifying two critical components to expanding access to homeownership opportunities – down payment assistance and matched savings through an IDA program.

#4 Identify and secure two channels for referrals for internships and employment for students.

- **Recommendation:** It is unclear how this bullet is related to bullets #3 and #5. Fannie Mae should clarify this in their next iteration of the Plan.

#5 Work with counselors, educators, and other third parties to engage 25 households (clients).

- **Recommendation:** Fannie Mae should include a rationale for engaging such a low number of households in Year 1. It should explain how this target reflects a certain level of difficulty that Fannie Mae and lenders will encounter when working in the region.

NCLR recommends consulting with CBOs that are HUD approved housing counseling agencies, including agencies within the NCLR Homeownership Network that provide pre-purchase counseling for high-needs rural communities and designated colonias within the following states: California, Florida, Georgia and Texas.

10. Objective #10: Expand partnerships to increase access to financial counseling for households in high-needs rural regions and among high-needs rural populations (Partner and Innovate).

SMART Factors

In Year One of the Plan, Fannie Mae will:

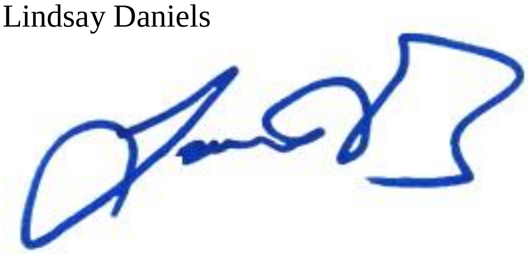
- Identify and support two partners developing scalable models to reach those living in dispersed high-needs rural regions and isolated high-needs households, and document actions.
- Develop and/or expand two partnerships targeting one or more of the high-needs regions and high-needs populations.
- Create one set of documented best practices to reach and engage households in need of housing assistance.

Recommendations: Fannie Mae should consider existing service providers with scalable models, such as HUD Housing Counseling Intermediaries with networks of HUD approved agencies that integrate financial counseling into their existing housing counseling services, including NCLR and more than 30 other HUD intermediaries. In addition, to increase the efficacy and reach of financial counseling, in particular for communities that are more spread out or located father away from a major town or city, Fannie Mae should consider partnering with providers offering various modes of financial counseling, including telephonic counseling or web-based access to a housing counselor or homebuyer education. NCLR has developed a scalable financial coaching model, called FinancialWorks, which is being integrated both into in-person counseling and telephone counseling, utilizing a call center, called the NHN Counseling Connection.

Thank you for the opportunity to present these comments. The recommendations contained in this letter are designed to help Fannie Mae increase its effectiveness in serving underserved markets, particularly Latino homebuyers and homeowners. If you would like to discuss our recommendations in greater detail, please contact Lindsay Daniels, Associate Director of Economic Policy, ldaniels@nclr.org, or Lot Diaz, Vice President of Housing and Community Development, ldiaz@nclr.org.

Sincerely,

Lindsay Daniels



Lautaro “Lot” Díaz

National Council of La Raza
Washington, DC

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