NCSHA

July 10, 2017

Mr. Jim Gray
Duty to Serve Program Manager
Federal Housing Finance Agency
400 Seventh Street SW, Room 10276
Washington, DC 20219

Re: Enterprise Proposed Duty to Serve Underserved Market Plans

Dear Mr. Gray:

On behalf of its state housing finance agency (HFA) members, the National Council of State Housing Agencies (NCSHA) appreciates the opportunity to comment on the draft Duty to Serve Underserved Market Plans developed by government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac in response to Federal Housing Finance Agency's (FHFA) Enterprise Duty to Serve rule.

HFAs are state-chartered housing agencies that operate in every state, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. Though they vary widely in their characteristics, including their relationship to state government, HFAs share a common mission of providing affordable housing to those in their states who need it. HFAs administer many critical federal housing programs that respond to the full spectrum of housing need, including the Home Investment Partnership Program (HOME), tax-exempt Housing Bonds, the Low Income Housing Tax Credit (Housing Credit), Section 8, the FHA-HFA Multifamily Risk-Sharing Program, and the Housing Trust Fund.

HFAs have a strong history of working with the GSEs to create affordable multifamily and single-family housing opportunities. NCSHA is pleased that both Fannie Mae and Freddie Mac have proposed in their Underserved Market Plans to build on these partnerships and collaborate with HFAs in their efforts to support underserved communities and markets. Several HFAs have already started to engage with the GSEs on initiatives to help the GSEs reach their Duty to Serve objectives.

Below are our comments on the GSEs' plans and how they could be strengthened to better support the Duty to Serve rule's objectives.

Stronger Purchase Goals

NCSHA commends both Fannie Mae and Freddie Mac for developing wide-ranging plans that commit their institutions to adressing many of the needs of the critical market sectors targeted for assistance in the Duty to Serve rule. That being said, we feel that in general both plans do not set strong enough goals for loan purchases and other investments, instead placing too much emphasis on meeting their Duty to Serve obligations through ancillary activities such as stakeholder outreach, market research, product development, and technical assistance. Further, both GSEs indicate in their plans that they are not likely to begin loan purchases or other investments in certain market segments until 2019 or in some instances even 2020, focusing at first on research and product development.

While research, technical assistance, and similar activities will certainly strengthen the GSEs' affordable housing activities, GSE loan purchases and investments will have a much more substantial and concrete impact on the communities and populations the Duty to Serve rule is designed to assist. In addition, the GSEs, to their credit, have already engaged in substantial research and stakeholder outreach concerning their Duty to Serve obligations, which should allow them to begin offering new products relatively soon.

Consequently, we suggest the GSEs look for areas in their plans where they can adopt more ambitious loan purchase and investment goals that will make a bigger difference in the Duty to Serve markets more quickly. Adopting aggressive Duty to Serve plans will also signal to other market participants the GSEs' commitment to underserved markets and communities, spurring more involvement and innovation from private and public sector stakeholders. We note that the Duty to Serve rule allows Fannie Mae and Freddie Mac to propose adjustments to their plan each year during three-year plan cycle, so both GSEs will be able to make changes that might be necessary after they gain additional experience and analyze market developments.

Housing Bond Purchases

NCSHA thanks FHFA for including in the Duty to Serve rule a provision allowing the GSEs to receive credit for purchasing and providing credit enhancement on HFA-issued Housing Bonds. HFA tax-exempt Housing Bonds have historically served as HFAs' primary means of financing their affordable housing lending, and HFAs have utilized them to serve many of the borrowers and markets targeted for assistance under the Duty to Serve rule.

Prior to the housing and economic crisis, the GSEs purchased and credit-enhanced sizeable amounts of HFA Housing Bonds. They still provide limited amounts of credit enhancement today. While the GSEs' Senior Preferred Stockholder Agreements with the U.S. Department of Treasury currently prohibit the GSEs from purchasing Housing Bonds, we hope that Treasury will lift this restriction in light of the Duty to Serve rule and the GSEs' improved financial health.

Unfortunately, neither of the plans proposes to utilize Housing Bond investments to meet their Duty to Serve obligations. We feel this is a missed opportunity, as purchasing and/or insuring Housing Bonds will give the GSEs a chance to quickly begin supporting financing for eligible housing and mortgage loans while they work to set up other initiatives. Housing Bond purchases would also be an excellent way to partner with HFAs and leverage their efforts.

NCSHA understands that the GSEs will be unable to resume any Housing Bond investments until they receive approval from Treasury. Still, we feel such investments present the GSEs with an efficient means of meeting their Duty to Serve obligations and urge them to include them within their Underserved Market Plans, contingent upon Treasury approval.

Housing Credit Equity Investments

The Housing Credit remains the nation's primary financing vehicle for affordable rental housing development. The Duty to Serve rule allows both GSEs to receive credit for Housing Credit equity investments for developments based in rural areas, subject to FHFA deciding separately to allow the GSEs to resume such investments. Fannie Mae's plan proposes to resume Housing Credit investments beginning in 2019 and to make ten such investments in rural areas by 2020. We applaud this approach, which will support Housing Credit development in areas where there is less investor demand for the Credit. We ask that Fannie Mae expand its plan to also include Housing Credit investments for developments that support "high-needs rural populations."

We also commend Freddie Mac's plan, which focuses on Housing Credit investments for developments in high-needs rural areas and for high-needs rural populations. Specifically, Freddie Mac plans to research the market for such investments in 2018 and, contingent on FHFA approval, start to make such investments in 2019 and 2020.

NCSHA appreciates Freddie Mac's strong interest in assisting these difficult markets. However, there is a strong need for credit investment in many rural areas, not just those that meet the rule would classify as "high-needs." Consequently, we encourage Freddie Mac expand its housing credit investment objectives to include investments in all qualified rural areas. We also recommend that Freddie Mac consider setting specific goals for Housing Credit investments to guide its efforts and generate interest and activity among potential partners. Freddie Mac can adjust the goals if it later determines they are either too aggressive or too timid.

Finally, as noted above, none of these investments can occur without FHFA approval. We strongly urge FHFA to allow the GSEs to resume making Housing Credit equity investments, even those that are not eligible for Duty to Serve credit. Doing so will strengthen the Credit equity market and support its resiliency should unexpected events cause market disruptions. As FHFA itself recognized in the Duty to Serve rule, GSE involvement in the Housing Credit market will also help particularly to boost pricing for Credit equity that supports developments in underserved areas.

Housing Credit Loan Purchases

Fannie Mae's and Freddie Mac's plans both indicate they will continue to purchase loans for multifamily developments financed by the Housing Credit. While we are pleased with their continued commitment to this market, we believe that both GSEs' plans should set more ambitious goals for loan purchases and focus on purchasing HFA loans and otherwise supporting HFA multifamily lending.

Fannie Mae proposes to purchase 40 to 70 Housing Credit development loans in 2018, and then increase the volume of such loans by 5 to 10 percent over the prior year in both 2019 and 2020. However, it is important to note that Fannie Mae has purchased at least 50 Housing Credit loans in each of the last three years and bought 68 last year. The purpose of the Duty to Serve rule is to push the GSEs to increase their support for affordable housing preservation, not award them for business they would otherwise conduct. Consequently, we would suggest Fannie Mae set a higher purchase range for 2018.

Similarly, Freddie Mac's loan purchase targets for Housing Credit developments, 90 loans or 13,500 units each year, represents a 35 percent reduction from its average loan purchases over the last three years. Freddie Mac purchased over 100 Housing Credit loans in both 2015 and 2016. Freddie Mac justifies the reduction by projecting that the Housing Credit market will shrink in the coming years because Congress will reduce the corporate tax rate through comprehensive tax reform and eliminate key programs that help finance Housing Credit developments, including HOME and Community Development Block Grants (CDBG).

These projections are misguided and premature. While tax reform and appropriations cuts may be enacted, that is far from certain. Furthermore, the effects of either policy change would not be fully realized until after next year, so Freddie Mac could amend its plan to reflect the new circumstances if need be.

Finally, as we mentioned above, the purpose of the Duty to Serve rule is to expand GSE activity in underserved markets. Proposing a reduction in Housing Credit development loan purchases cuts against this purpose.

In contrast to our concerns about its Housing Credit purchase plans, NCSHA strongly supports Freddie Mac's proposal to develop a new multifamily loan product designed to help Housing Credit transactions facing capital shortfalls associated with less Housing Credit equity. We are also pleased with Freddie Mac's intention to offer a new streamlined product to secure longer affordability periods for Housing Credit developments that are approaching or are in their extended compliance periods.

As Fannie Mae and Freddie Mac conduct their multifamily loan purchases under their Underserved Market Plans, we urge them both to develop products tailored for HFAs, including special underwriting, delegated processing, and servicing standards that recognize HFAs' unique status as quasi-governmental entities dedicated to affordable housing finance and their proven track record in successful multifamily lending.

Working with State and Local Affordable Housing Programs

In addition to mandating that the GSEs support financing for preserving affordable multifamily developments that have been assisted under various federal housing programs, the Duty to Serve rule also encourages the GSEs to purchase loans for affordable multifamily housing financed through "comparable state and local programs." NCSHA strongly supports this provision. HFAs and other state and local government entities administer many crucial programs designed to meet the unique affordable housing needs of their constituents. Growing the secondary market for such loans and otherwise supporting these activities will help to reduce costs and increase the amount of resources that assist renters and potential homeowners. Furthermore, because such programs are already up and running, supporting them provides the GSEs a good opportunity to more expediently meet their obligations.

NCSHA thanks Fannie Mae for addressing this activity in its draft plan by stating that it intends to review at least five state and local programs that fall outside of its definition of "multifamily affordable housing" and to purchase ten to 15 loans from such programs in both 2019 and 2020. While the purchase goals are on the conservative end, they may be a reasonable starting point given that this is a new activity for Fannie Mae. We urge Fannie Mae to consider adjusting them upwards should this activity prove successful. We also encourage Fannie Mae to develop special loan products that meet the specific needs of HFAs, including delegated processing and flexible underwriting.

We also strongly urge Freddie Mac to update its plan to include objectives for supporting state and local housing programs, which it does not address in its draft.

Rural Housing

NCSHA applauds Fannie Mae's and Freddie Mac's commitments to increase access to financing for rural single-family and multifamily lending by considering changes to loan products and simplifying processing for lenders specializing in those areas. HFAs have a great deal of experience in rural lending and urge Fannie Mae and Freddie Mac to partner with them in developing more effective products and processing to reach underserved rural areas and populations.

We are particularly pleased that both Fannie Mae and Freddie Mac intend to begin purchasing loans for properties participating in the U.S. Department of Agriculture's Section 515 Rural Housing program to preserve their affordability, and that Freddie Mac intends to develop a new product offering designed specifically for Section 515 properties. As both GSEs note in their plans, the need for such financing is acute, as many properties will soon be leaving the Section 515 program, and USDA is unlikely to have the funding needed to preserve these properties' affordability.

Rental Assistance Demonstration Program

We strongly support Fannie Mae's and Freddie Mac's intentions to purchase Rental Assistance Demonstration (RAD) program loans. Given that Congress recently increased the cap on units that may be converted to RAD, and the Trump Administration has proposed to eliminate the cap entirely, we request that the GSEs increase their loan purchase targets to accommodate likely increased demand. We also suggest the GSEs develop products needed to close the capital gaps for RAD developments. These products could have terms conducive to supporting deep subsidies, such as lower interest rates, higher loan-to-value ratios, and better pricing.

Manufactured Housing

Freddie Mac's plan recognizes the important role that HFAs play in manufactured housing finance and would help expand that role by supporting HFAs' responsible manufactured housing lending. Notably, Freddie Mac intends to amend its underwriting standards so that by 2019, it will guarantee manufactured housing loans originated through all HFAs that are Freddie Mac-approved Seller/Servicers. This a great first step, but we urge Freddie Mac to go further by extending this benefit to all HFAs, even those who are not Freddie Mac-approved Seller/Servicers, by allowing HFAs to sell such loans at Freddie Mac's cash window if they choose.

We suggest Fannie Mae pursue partnerships with HFAs to help them increase their manufactured housing lending. No such collaborations were included in Fannie Mae's plan.

Thank you for your consideration of our comments. Please do not hesitate to contact me if we can provide additional information.

Sincerely,

Barbara Thompson

Barbara Thompson

Executive Director