NFHA
National Fair Housing Alliance

July 10, 2017

Director Mel Watt
Federal Housing Finance Agency
400 7th St SW
Washington, DC 20024

Re: Comments on the Enterprises' Duty to Serve Plans

Dear Director Watt:

Thank you for the opportunity to submit these comments on the proposed Underserved Market Plans of Fannie Mae and Freddie Mac, the Government Sponsored Enterprises ("GSEs" or "Enterprises"). The National Fair Housing Alliance (NFHA)[1] applauds FHFA for finalizing the Duty to Serve (DTS) regulation and moving forward to implement its provisions. The activities undertaken by the GSEs to carry out their plans have the potential to bring much-needed mortgage credit to long-neglected segments of the market, and in doing so, to enhance access to stable, affordable housing for many families who currently lack such access.

It is particularly important that the GSEs' DTS plans address the needs of communities, including many low and moderate income communities and communities of color, that continue to struggle with the impact of the foreclosure crisis. Key among these are vacant properties that too often are poorly maintained, causing a host of other problems for nearby residents and local governments, and the loss of homeownership and wealth, particularly among people of color. These problems, along with the growing housing affordability crisis that many communities are experiencing, threaten to undermine our economic security and stability. Families with children and people with disabilities are especially vulnerable, and it is crucial that the GSEs' DTS plans take their needs into account.

NFHA supports the comments made by many other organizations about the disappointingly low bar that the GSEs have set for themselves in their draft plans. Too much time is allocated to research and development, pilot programs, outreach to stakeholders and similar efforts that fail to acknowledge the expertise in serving these underserved markets that already exists. We

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[1] Founded in 1988, and headquartered in the District of Columbia, the National Fair Housing Alliance is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights groups, and individuals from 37 states and the District of Columbia. Through comprehensive education, advocacy and enforcement programs, NFHA seeks to provide equal access to housing for all.

agree with these commenters that the GSEs should seek to partner with mission-driven non-profits, community development financial institutions (CDFIs) and state and local government agencies who know how to serve these markets but lack the capital to do so at scale. Expanding these partnerships and investing capital in these institutions will lead to better, faster outcomes that will benefit underserved communities.

Residential Economic Diversity

The DTS rule provides that the GSEs may get extra credit for otherwise eligible DTS activities that promote residential economic diversity (RED). NFHA strongly supports this goal, which will benefit families, communities and our nation in addition to benefitting the GSEs themselves. Research shows that regions with less racial segregation, less income inequality, and greater immigrant inclusion – all of which result from better economic diversity – have more robust and sustained economic growth.[2] Research also demonstrates that children who grow up in low poverty neighborhoods are more likely to attend college, have higher incomes and offer better opportunities to their own children, outcomes that benefit society as a whole.[3] Thus, efforts to enhance residential economic diversity will strengthen the markets in which all other GSE activities take place. The GSEs can play an important role in achieving these outcomes through their investments that promote residential economic diversity, both mixed income housing in areas that have historically been starved for investment, and affordable housing in areas that are characterized as "high opportunity."

We appreciate Fannie Mae's inclusion of an objective focused on residential economic diversity in its DTS plan, something that Freddie Mac did not include. However, we are disappointed that Fannie set its RED goals so low. It did not review its past loan purchases to determine which would address this important goal, nor has it proposed a baseline for future activities which promote residential economic diversity. Further, the activities that Fannie proposes to undertake in this area are so limited as to have minimal impact. In Year 1, it proposes to hold seven meetings with lenders and another seven meetings with Public Housing Authorities, along with tracking transactions to determine which might qualify for treatment as RED transactions and reviewing a handful of guidelines or incentives to increase the volume of RED transactions. In Year 2, Fannie proposes to purchase a total of nine loans under various programs that would qualify as RED transactions, and in Year 3, it proposes to purchase 13 loans and make one investment that would qualify for RED treatment. It is hard to envision that these 23 investments over two years will have a discernable impact on the market, and we urge FHFA to direct Fannie to rework its approach. At a minimum, it should analyze previous

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[2] See "An Update of the Regional Growth Model for Large and Mid-Size U.S. Metropolitan Areas: Northeast Ohio Dashboard Indicators" (Austrian, Lendel, Yamoah 2007) urban.csuohio.edu/publications/center/center_for_economic_development/dashboard_report_final_0807.pdf; "Regional Dashboard of Economic Indicators 2008: Comparative Performance of Midwest and Northeast Ohio Metropolitan Areas" (Austrian, Lendel, Yamoah 2008) engagedscholarship.csuohio.edu/cgi/viewcontent.cgi?article=1130&context=urban_facpub

[3] Raj Chetty, et. al. http://www.equality-of-opportunity.org/images/mto_paper.pdf

purchases to set a baseline for activity in this area, and it should set higher targets for loan purchases and other investments.

Freddie Mac's approach is even less ambitious. Its plan lacks a Residential Economic Diversity objective altogether, simply noting that some of its other activities (debt financing for LIHTC projects, closing capital gaps for LIHTC projects, and closing capital gaps for Section 8 transactions) may qualify for RED treatment. Like Fannie, it has not analyzed past transactions or set any baseline for its activities in this area. It has not proposed any specific activities to identify opportunities for investment, assess barriers that may hinder such investments or take steps to reduce barriers. Nor has it set specific goals for transactions to be undertaken to promote residential economic diversity in any of the three years covered by this plan. These are all serious shortcomings. We urge FHFA to direct Freddie to analyze its past transactions to set a baseline and then spell out a specific, ambitious set of activities that it will take to increase residential economic diversity in its Underserved Market Plan.

Finally, we note that the plans submitted by the GSEs do not go far enough in specifying how the GSEs will advance economic diversity for under-served groups who have a long history of facing housing and lending discrimination. These areas of the plans must be substantially improved. Numerous laws set forth a robust framework to ensure non-discrimination in the housing and mortgage markets and convey upon FHFA and the Enterprises a clear responsibility to apply a fair housing lens not only to the Duty to Serve obligation but to every activity undertaken by the agencies. Those laws include the Enterprises' federal charters, the Fair Housing Act, the Equal Credit Opportunity Act, the Federal Housing Enterprises Financial Safety and Soundness Act and the Housing and Economic Recovery Act. This framework requires FHFA to assess the Enterprises' Duty to Serve plans to ensure they provide affordable homeownership and rental housing opportunities for all market segments including people of color, persons with disabilities and families with children. It is not enough to determine at aggregate levels whether the GSEs are creating and supporting affordable housing opportunities for the market broadly. Rather, a deeper analysis is required to determine if the GSEs' actions are providing real affordable home purchase and rental housing options for market segments that have been excluded historically and face grave challenges when trying to access housing.

All segments of the market face barriers to access, but there can be no denying that some communities are disproportionately affected by market forces that make it difficult to obtain housing. According to the Joint Center for Housing Studies, the number of severely cost-burdened households has increased by 25 percent since 2007 with over 21 million renters – over 48 percent of renter households – being cost burdened. In 2015, over 11 million renters spent more than 50 percent of their income on housing. In nearly 100 metro areas, over 30 percent of renters are severely cost burdened. The Center also reports that over 18 million homeowners are cost burdened. In about half of all metro areas, over 20 percent of homeowners are cost-burdened. Nationally, 10 percent of homeowners are severely cost-burdened. But people of color are more likely to be severely cost burdened than whites. Twenty-eight percent of Asian or Pacific Islander working households and 25 percent of

African-American and Latino working households pay more than half of their income on housing costs while 18 percent of White working households do so.

People with disabilities and families with children also face steeper challenges when trying to access housing. Families with children typically need larger housing units, with multiple bedrooms, to accommodate all family members. Not only are these units costly, they are increasingly scarce. In some markets, such as Washington, DC, many 3, 4 and 5 bedroom units have been demolished or eliminated as older properties are rehabilitated and reconfigured, and virtually no new units with more than 2 bedrooms (if even that many) are being constructed. This severely constricts choice and access for families. People with disabilities also face significant barriers. Not only do they tend to have lower incomes, but they may also require a home with physical modifications – wider doorways and the like – or other accommodations to allow the occupant the free enjoyment of the unit. In fact, according to the Joint Center's analysis, 32% of HUD-Funded rental assistance goes to households with children and 23% goes go adults (with or without children) who have disabilities.

Given these factors, it is critical that any activities the GSEs undertake to promote residential economic diversity must also promote racial and ethnic diversity and address the housing needs of families with children and people with disabilities. All of these groups may suffer from illegal discrimination that continues to plague our communities, nearly 50 years after the passage of the Fair Housing Act prohibited such discrimination. FHFA has a statutory obligation to ensure that its programs, including its oversight of the GSEs, are administered in a manner that promotes access to housing free from discrimination and breaks down the barriers of segregation by ensuring that all communities connect their residents to the opportunities they need to flourish. If it approaches oversight of the DTS program through a broader fair housing lens, FHFA can make progress toward fulfilling this obligation.

**Neighborhood Stabilization**

NFHA fully supports the comments of the National Community Stabilization Trust and agrees that the Enterprises must include robust, substantive goals with respect to the Neighborhood Stabilization Regulatory Activity outlined in their plans. Both Fannie and Freddie still hold large inventories of foreclosed properties. Their actions have a substantial impact on neighborhood stabilization efforts. First and foremost, the GSEs must ensure that they are maintaining and managing their Real Estate Owned properties sufficiently and that their properties are not contributing to neighborhood blight. This includes adopting recommendations issued by the National Fair Housing Alliance in its reports on REO management[4], including:

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[4] Zip Code Inequality: Discrimination by Banks in the Maintenance of Homes in Neighborhoods of Color. National Fair Housing Alliance. August 27, 2014, available at http://nationalfairhousing.org/wp-content/uploads/2017/04/2014-08-27_NFHA_REO_report.pdf

- Implementing tight quality control measures on property preservation managers, property asset managers and all vendors who engage in the management, maintenance and marketing of foreclosed units;
- Selecting real estate brokers who live in close proximity to the subject property;
- Establishing relationships with non-profit organizations engaged in quality community development and neighborhood stabilization work at the local level;
- Providing extensive training to all staff and vendors engaged in the management, maintenance and marketing of foreclosed properties;
- Utilizing property management, preservation and sales vendors who are locally based businesses rather than national platform vendors who are often far removed from the assets;
- Adopting strong fair housing policies and ensuring full compliance with fair housing laws and regulations; and
- Implementing marketing and disposition practices that better serve communities.

The GSEs must also develop products that will enable the renovation of blighted properties, particularly in areas that were hardest hit by the foreclosure crisis. While we appreciate the leadership role that Freddie Mac has played in advancing policies and practices that ensure high standards in the maintenance and marketing of REO units, we believe that it should identify specific Neighborhood Stabilization goals in its DTS plan. Fannie Mae must substantially beef up its activities in this area. The goals in Fannie's plan are weak and it can and must do significantly more to promote neighborhood stabilization efforts, especially given its impact on the market.

NFHA's investigations and research in this area clearly demonstrate that poorly maintained REO units are much more likely to sell to investors while well-maintained units are more likely to sell to owner-occupants. Investors have proven to be poor partners when it comes to neighborhood stabilization and community development efforts. The GSEs must adopt policies and protocols that favor the sale of their units to occupants who will be viable, stable participants in our neighborhoods.

Thank you for consideration of our comments. If you have any questions, we would be happy to discuss them further, and look forward to working with FHFA and the GSEs to ensure the DTS plans address the needs of all communities. We can be reached at (202) 898-1661.

Sincerely,

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