July 10, 2017

The Honorable Mel Watt
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

RE: Duty to Serve Underserved Markets Plans

Dear Director Watt:

On behalf of NeighborWorks America I want to thank the Federal Housing Finance Agency (FHFA) for the opportunity to provide comments regarding the Underserved Markets Plans proposed by Fannie Mae and Freddie Mac (collectively, the "GSEs").

Please note that these comments have not been submitted to or approved by NeighborWorks America's board. These comments reflect the view of NeighborWorks America management and do not necessarily represent the views of its board members, either collectively or as individuals. These comments have been informed by conversations with a number of members of NeighborWorks America's network of more than 240 local and regional nonprofit-affiliated NeighborWorks organizations.

Our mission at NeighborWorks America is to create opportunities for people to live in affordable homes, improve their lives and strengthen their communities. The activities proposed by the GSEs as part of their Underserved Markets Plans could play an important role in helping us and our network of strong nonprofit organizations achieve our goals. We are, therefore, pleased to support the general direction of these plans.

Access to credit remains a challenge in all three of the underserved markets covered under the Duty to Serve regulations. Thus, NeighborWorks America very much appreciates the time and effort that Fannie Mae and Freddie Mac have put into crafting the proposed Underserved Markets Plans to meet the needs of these underserved populations.

NeighborWorks America consulted extensively with our network of NeighborWorks organizations in putting together these comments. NeighborWorks organizations are a driving force in creating affordable homeownership and rental housing opportunities in communities across the United States. In FY 2016, NeighborWorks organizations assisted 360,000 families with their housing needs, including creating 21,000 new homeowners, owning and managing 154,100 units of affordable rental housing, and providing counseling and education to 115,000 families buying and/or preserving a home. The NeighborWorks network also provides an extensive array of other services in their communities through resident engagement, economic development, workforce development, education, and health care programs and partnerships.

NeighborWorks organizations serve all three of the underserved markets covered in the Duty to Serve regulations. In FY 2016, two-thirds of all NeighborWorks organizations served rural Americans. Manufactured housing is not only included in the work of NeighborWorks organizations, but NeighborWorks also supports two manufactured housing social enterprises, Next Step, a company dedicated to building high quality, Energy Star-rated factory built housing, and ROC USA, a national initiative to transform privately owned mobile home parks into resident-owned communities. Additionally, NeighborWorks organizations preserve thousands of affordable rental housing units each year.

General

To maximize the impact of the Duty to Serve regulations, each of the Underserved Markets Plans should focus on what each organization does best. NeighborWorks agrees that the GSEs should focus their activities around their strengths in the secondary market, utilizing partnerships with other organizations to amplify those strengths and meet needs that are outside of their general scope. In that manner, NeighborWorks and other national and regional intermediaries can serve in a connecting role, helping the GSEs get to scale by pulling together lenders and cohorts around specific issues and sub-markets. This role could help bridge the gap between smaller organizations working on the ground and the GSEs, expanding access to credit and helping the GSEs to achieve their goals. In particular, NeighborWorks would be interested in pursuing this strategy for rural markets, where the NeighborWorks network is deeply embedded but GSE and lender participation has not traditionally been as robust. Pursuing partnerships with experienced entities could mitigate the need for years of piloting and demonstrations, moving more quickly to actual production of affordable housing.

Another important opportunity for partnership between the GSEs and the broader field is in the area of housing counseling. Financial education and coaching for potential borrowers should be incorporated into and supported by loan products across the board, increasing the sustainability of loans and reducing risks faced by both borrowers and lenders. There is already substantial existing capacity in this space, and NeighborWorks encourages the GSEs to pursue this strategy through NeighborWorks and other entities that have already developed this expertise.

Finally, NeighborWorks is concerned that the format of this public comment opportunity does not allow for adequate public participation. Given the length and scope of the proposed

Underserved Markets Plans, it is simply not feasible for organizations such as those comprising the NeighborWorks network to meaningfully review the content and provide input. As the implementation process gets underway, NeighborWorks recommends that FHFA and the GSEs offer future installments of these plans in a comparative format that allows the public to compare past performance with proposed activities.

Affordable Housing Preservation

In communities across the country, there is a severe shortage of affordable housing. Many existing affordable housing developments, both subsidized and unsubsidized, are in need of rehabilitation and recapitalization. Despite the daunting scale of these needs, preservation of existing units is often still substantially more cost effective than construction of new units, and access to capital is a key component to a successful preservation transaction.

The GSEs can enhance access to capital by offering debt and equity investments, credit enhancement, and other creative products or activities. In particular, the GSEs should resume providing equity or equity-like investments. The former Fannie Mae American Communities Fund is a good model, providing debt and equity products to assist in project-based financing that contributes to a project's overall feasibility. There is a significant need in the market by nonprofits for short- to mid-term (10- year) investments that would support the purchase and preservation of both subsidized and unsubsidized affordable housing. A tailored security with a long term could be an equity-like product. In addition, the GSEs should provide letters of credit, tied directly to the mortgage on a property, to a lender to guarantee up to 95% of the loan-to-value ratio of a loan for the acquisition and/or the rehabilitation of an affordable housing property. The GSEs should also develop loan products with below-market interest rates or loans based on cash flow below the line to support preservation deals.

The GSEs should resume LIHTC investments, most certainly in rural markets and markets outside of the Community Reinvestment Act assessment areas of large banks. Importantly, at "Year 15," the Enterprises should be required to conduct their disposition of their current LIHTC investments in a responsible fashion which does not do damage to the long-term sustainability of projects and assures that the properties can remain as affordable housing. The Enterprises should not drain valuable subsidies to provide returns, and they should maintain adequate operating reserves within those projects so that the units can be preserved as affordable housing for many years to come.

NeighborWorks encourages the GSEs to pursue more aggressive goals for the volume of multifamily loan purchases. The draft plans appear to be predicated on a downturn in the market, a possibility that is far from certain. Rather than lower the goals, NeighborWorks would recommend that FHFA provide a waiver or other form of scoring change if economic conditions prevent the GSEs from achieving more reasonable goals.

Energy Efficiency

The GSEs should break new ground and be leaders in the energy efficiency space. They have the scale to demonstrate new approaches and scale them up. To support the lending that CDFIs are doing in the energy efficiency space, the GSEs should allow a second lien behind their mortgage and standardize an inter-creditor agreement for subordinate energy efficiency loans behind their mortgages. They should also exclude debt payments on a CDFI efficiency loan from hard debt service coverage covenants.

Workforce

NeighborWorks applauds Fannie Mae's interest in workforce housing. However, in order to ensure appropriate targeting of these activities, Duty to Serve credit should be limited to partnerships with mission-driven developers and/or properties with limitations on rents. NeighborWorks would also encourage Freddie Mac to consider activities to support development and preservation of workforce housing.

Shared Equity

To support shared equity, the GSEs should establish automated underwriting for loans on properties where deed restrictions survive foreclosure. To support shared equity lending, Fannie Mae should make modifications to its shared equity loan product including calculating down payment requirements based upon the affordable purchase (not the appraised value), removing representations & warranty requirements for lenders or providing some alternative incentive, providing guidance on how to evaluate the impact of different resale restrictions on property appraisals and establishing a system to allow market-rate comparables to be used during appraisal process. Freddie Mac should take a more strategic approach to increasing market awareness of shared equity by pursuing strategies such as offering incentives to lenders, proactively recruiting key lenders covering large geographic footprints, focusing on building partnerships between loan originators and shared equity programs, and offering technical assistance to both lenders and program operators in a "help desk" format.

Manufactured Housing

Although manufactured housing is a critical source of affordable housing for many Americans, it is a market segment that has historically been underserved by financial institutions. NeighborWorks recognizes that the GSEs' relatively limited history and experience in this space requires them to begin with activities focused on research and exploration, and applauds efforts to gather data on the physical inventory of manufactured housing as well as identify the owners, particularly those in resident-owned communities (ROCs).

As the GSEs gain comfort with manufactured housing, it is essential that they migrate features of loans offered to site-built properties into the manufactured housing space. Like with site-built housing, the GSEs should modify their loan products to extend high LTV (raising the limit from 95% to 97%) lending to manufactured housing and remove restrictions on the source of down payment funds that require the funds come directly from the borrower. Similarly, the GSEs should develop a standard procedure for quantifying the cost savings resulting from energy efficiency upgrades and the impact on home values, allowing for greater affordability and credit access for borrowers.

Given their scale and the size of the potential market, the GSEs can truly impact the form which lending takes in the manufactured housing space. One gap that the GSEs could fill is the introduction of a product that enable homeowners to purchase the land upon which their homes sit. Land ownership would provide rural families with more stability and allow for wealth accumulation.

Manufactured homes are more prevalent in rural communities and many are owned without a mortgage but are in need of replacement due to their age and condition. The GSEs should also develop a loan product focused on replacement of dilapidated, inefficient and pre-1976 manufactured homes. Under Duty to Serve, the GSEs could design and test products with a lower rate and/or longer term to encourage greater energy efficiency and offset the reluctance of existing owners to take on debt. Such a MH replacement product could function as a pilot for a national social enterprise such as Next Step, where buyers of Energy Star rated homes receive homebuyer education in advance and where performance can be measured as part of the pilot. Freddie Mac’s plan mentions replacement (once) whereas Fannie Mae’s plan never does. Additional financing for replacement can be directed at resident-owned manufactured housing communities as part of the broader strategy for addressing ROCs. Individual owners of manufactured homes also need assistance, whether they are in a park or own the land beneath their home. In addition, residents of older manufactured housing are particularly vulnerable to displacement and their homes face a heightened risk of being destroyed or damaged due to natural disasters. Loan products that provide funding to retrofit manufactured homes and mitigate risks should be given consideration as part of any preservation work. The GSEs could create a purchase vehicle, perhaps as a pilot or series of pilots, to provide liquidity and enhance investment in the rehabilitation of rural single family homes, both site and factory built.

NeighborWorks strongly supports the GSEs’ intention to increase their activity in the manufactured housing space. Freddie Mac’s goal of increasing the share of their loans to MH from .3% to 6% by end of plan term is admirable. A greater benefit could be realized however, if Freddie Mac focuses on purchasing loans made to non-profit owned communities and ROCs that meet the LMI test. NeighborWorks also supports Fannie Mae’s goal of purchasing additional nonprofit owned communities.

While it may be more difficult for the GSEs to purchase loans made for highly leveraged residential communities or co-op acquisition, which can frequently require underwriting criteria up to 110% LTV, they can serve low-income neighborhoods and low-income land lease communities through a model of low share value cooperatives or limited equity cooperatives. To meet the needs of other communities, the GSEs can support the CDFIs that are currently participating in this market through balance-sheet financing like that which was done under the American Communities Fund. NeighborWorks strongly supports FHFA giving DTS credit for the purchase and securitization of loan pools from CDFIs in the manufactured housing space.

Chattel Pilot

There is a tremendous need for safe, responsible access to capital for manufactured housing titled as chattel. However, any manufactured housing communities that are included in a chattel pilot should include appropriate resident protections. Through the use of incentives, the GSEs can encourage investor-owned parks to embrace the types of protections more typically found in the mission-driven ownership model and help to make them standard.

NeighborWorks encourages the GSEs to strengthen their plans by pursuing a more aggressive scope and timeframe for launching chattel loan pilots, a change which would enable them to actually offer substantial numbers of chattel loans during the plan period. Given the long lead time during the development of the regulations as well as the planning period, this should be feasible. Fannie Mae is proposing only limited lending, and Freddie Mac is not proposing to actually do any chattel lending during the plan horizon. Here, partnerships with experienced intermediaries and their members can serve to augment the outputs of the plans.

Rural Housing

Given that the majority of rural residents live in single family homes, NeighborWorks urges the GSEs to increase their focus on the preservation of this stock. At present, both plans focus almost exclusively on the preservation of Section 515 multifamily housing units, leaving unexamined the challenges of single family housing preservation. Resources to rehabilitate and preserve single family homes for purchase or rent are critical in rural areas. Traditional public sources that can be used for rural housing rehabilitation, including HOME, CDBG, RD Section 504 and RD Housing Preservation Grants are under extreme demand pressure and subject to shifting prioritization. As CDFIs serving rural communities scour available capital resources to finance housing rehabilitation, one or both GSEs could greatly expand capital flows by providing liquidity, even on a pilot basis, for junior lien mortgages where the loan proceeds have been utilized to address health, safety and energy improvements to owner-occupied rural single family homes. Providing liquidity for second mortgage rehab loans will leverage the increasingly limited public sources of loan capital.

In addition, the GSEs should explore ways in which they can partner with USDA to provide more capital for the Section 523 (Self-Help housing) and Section 504 (loans and grants for single-family rehab) programs. Any products or pilots that increase the utilization of these programs would be of great benefit to rural homeowners. The GSEs can also work with USDA and state offices to simplify and address the myriad challenges relating to preservation of Section 515 properties.

For preservation of aging Section 515 properties, nonprofit organizations need low-cost, patient, acquisition capital and a structured solution for using 4% credits with extremely low interest, long-term debt, or a combination of hard and soft debt to fund necessary rehab work. This capital will allow nonprofits, or groups of nonprofits working under a common general partner entity, to package existing and newly acquired buildings into portfolios of about 100 units and finance with 4% credits.

Access to broadband is another key challenge faced by many rural communities. According to the National Housing Conference, about 34 million Americans, a disproportionate share of whom are low-income renters, lack access to broadband internet service. While Fannie Mae's plan mentions broadband in relationship to senior housing, NeighborWorks urges both Enterprises to recognize the importance of high-speed internet access to manufactured, single family, and multifamily housing, too. As a result, any incentives offered to encourage expansion of access to broadband should be offered in all markets.

Conclusion

On behalf of our network of nonprofit organizations, NeighborWorks is grateful for the opportunity to continue to work with FHFA and the GSEs to increase liquidity and expand access to credit for Americans in underserved communities across the country. We look forward to continuing our engagement with the implementation of the Underserved Markets Plans and stand ready to assist the GSEs in reaching their target audiences.

Sincerely,

Kirsten T. Johnson-Obey
Senior Vice President, Public Policy and Legislative Affairs