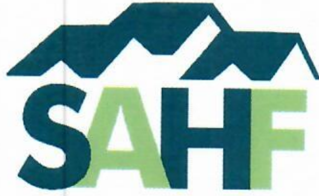


July 10, 2017

Submitted via FHFA.gov

Mr. Jim Gray
Duty to Serve Program Manager
Federal Housing Finance Agency
400 7th Street SW
Room 10276
Washington, DC 20219

RE: Fannie Mae and Freddie Mac Proposed Underserved Market Plans

Dear Mr. Gray:

Thank you for this opportunity to provide comments on the proposed Underserved Markets Plans submitted by Fannie Mae and Freddie Mac (the Enterprises or GSEs). We appreciated the stakeholder engagement efforts by FHFA, Fannie Mae and Freddie Mac as they developed the proposed plans and now look forward to working with FHFA and the Enterprises as they finalize and implement the plans.

Launched in 2003, Stewards of Affordable Housing for the Future (SAHF) represents thirteen exemplary, multi-state non-profit affordable housing providers-- Mercy Housing, Volunteers of America, National Church Residences, National Housing Trust, The Evangelical Lutheran Good Samaritan Society, Retirement Housing Foundation, Preservation of Affordable Housing, The NHP Foundation, BRIDGE Housing, CommonBond Communities, Community Housing Partners, Homes for America, and The Community Builders. SAHF members preserve and develop affordable multifamily homes that expand opportunity and create dignity for low-income persons with disabilities, the elderly, families, and the homeless.

By efficiently and creatively leveraging private, public and philanthropic resources, SAHF members have developed or acquired more than 134,000 affordable rental homes in markets across the county. SAHF members are leaders in the preservation of affordable housing and are led by mission to serve even the most challenging markets. SAHF members have been high performing borrowers under loans purchased or other otherwise facilitated by the Enterprises. SAHF members also utilize Low Income Housing Tax Credits (LIHTC) and participate in a number of HUD's multifamily rental housing programs that foster private ownership of affordable rental housing including project based rental assistance under Section 8, Section 202 Housing for the Elderly, Section 8 vouchers and the Rental Assistance Demonstration (RAD), as well as USDA/RD's Section 515 Program.

Given SAHF members' shared focus on multifamily affordable housing, we have generally limited our comments to multifamily affordable housing preservation. We note that our feedback includes

comments shared by our partners and members including the Green Affordable Housing Coalition, National Housing Trust and others.

1. **General Comments**

   We applaud the creativity and initiative of the Enterprises in developing their plans and appreciate their significant efforts to engage stakeholders. While the plans demonstrate the Enterprises' commitment to increase their impact in underserved markets, they are also evidence of a heavy focus on scoring and technical compliance. We encourage the Enterprises to strive for a bold impact as they finalize their proposed plans. As both draft plans note, the country is facing an affordability crisis with half of renters "rent burdened" (paying more than the recommended 30% of income for rent) and one in four renter household "severely rent burdened" (paying more than 50% of their monthly income for rent). In this context, we offer the following general comments on the plans.

   a. ***Create more aggressive loan purchase targets***

      As required under the Final Rule and Evaluation Guidance, both Enterprises have set loan purchase goals using actual past loan purchases as a baseline. While it is appropriate to adjust the baseline in anticipation of regulatory and market changes, both plans include very conservative downward adjustments. For instance, the Freddie Mac target LIHTC and Section 8 loan purchases has discounted the average purchases over the last three years by 35%. The justification for this steep downward adjustment assumes that the corporate tax rate will be reduced to 20% and that funding for HOME and CDBG will be eliminated or materially reduced. While tax and appropriations changes are risks, the discount applied here is far more conservative than what the marketplace is using. By comparison, lenders and investors concerned with the impact of lower corporate tax rates under tax reform are generally underwriting transactions at a rate of 25%. Further, it is uncertain whether cuts to HOME and CDBG proposed by the Trump administration budget will be adopted as proposed. Finally, even if these changes were to occur, their impact would not be fully realized in 2018.

      Loan purchase targets that are roughly half of recent years' are unlikely to represent a meaningful impact and are certainly not an improvement in service to underserved markets. Given that the Enterprises have the opportunity to modify their plans annually, loan purchase goals should not be based on assumptions that are more conservative than other market participants. We encourage the FHFA to require the Enterprises to adjust their affordable housing preservation loan purchase targets.

   b. ***Expedite timelines for objectives***

      As noted above, we recognize that the Enterprises have already engaged in significant outreach, stakeholder engagement and research around new product offerings and term changes to existing programs. Given the urgent need to preserve housing and affordability in these underserved markets and the considerable knowledge and resources already invested, we urge the Enterprises to expedite the publication of reports and resources, as well as the roll out of new offerings. For instance, given the significant engagement around Section 515 loans, both Fannie Mae and Freddie Mac should strive to make changes and loan purchases as soon as possible. (Fannie Mae Affordable Housing Preservation Activity C, Freddie Mac Activity 4). Given its depth of experience with energy efficiency, Freddie Mac should seek to publish its first report early in the first year. (Activity 6). Further, we

encourage FHFA in its evaluation to consider the expedited roll out of well-researched resources and products as part of its potential impact.

2. Affordable Housing Preservation Activities

a. Section 8

More than half of all properties owned by SAHF members are assisted with project based Section 8 (PBRA), Project Based Vouchers (PBV) or Housing Choice Vouchers (HCV). These programs are critical to housing the most vulnerable low-income populations, however they are only effective preservation tools if they can be leveraged for long term financing. While the Enterprises have a strong history of purchasing mortgages on properties with PBRA, additional conditions on these loans and frequently required waivers can be costly and time consuming. Further, existing Enterprise underwriting guidance typically doesn't consider income from preservation HCV. Caps on repair costs can all limit the use of the Enterprises' offerings for preservation of Section 8 and other affordable properties. In addition to the specific comments below, we encourage both Enterprises to consider modifications to cost guidelines that may facilitate preservation.

We applaud Fannie Mae's objective of modifying underwriting guidelines and credit standards pertaining to above market Housing Assistance Payments (HAP) contracts, large restabilization reserves, appropriations risks and Section 8 HCV (Activity A, Objective 1). Adjustments to these criteria could expedite processing and reduce costs for preservation loans. Fannie Mae's proposed plan contemplates an analysis in the first year with changes and tracking in years two and three. We encourage Fannie Mae to pursue published changes as soon as possible. Given its significant history with loan purchases on PBRA properties, Fannie Mae should have sufficient experience to design appropriate updates, particularly around appropriations risk and restabilization reserve issues that exist in most Section 8 transactions. As Fannie Mae analyzes pre-review requests and contemplates updates to guidelines, we also encourage it to engage lender and borrower stakeholders to discuss new approaches that that would facilitate transactions rather than relying only on terms of past waivers.

Similarly, we are encouraged by Freddie Mac's proposed development of a new offering with a more efficient origination for Section 8 and LIHTC preservation loans (Activities 1 and 2, Objective B). We urge Freddie Mac to specifically consider transition reserve requirements and guarantee requirements for nonprofits as areas in which updates could help expedite processing. Further, we note that the status report contemplated includes number of transactions and participants and observations, but does not commit to measuring transactional costs or processing time or to providing any analysis of the impact of this product on overall Section 8 loan purchases across offerings. Without an indication of savings, either in real dollars or as a percentage of total transaction costs, the impact of a new offering in offsetting rising interest rates or otherwise facilitating transactions will be unknown. Freddie Mac should seek such measures.

Freddie Mac's Section 8 Objective 3 recognizes the threat of diminishing resources to finance the preservation of Section 8 properties and the need for funding to close capital gaps. While the need for gap funding is clear, it is less clear whether a new loan purchase product can provide an impactful solution. Affordable housing developers are challenged by operating revenue that is constrained by affordability restrictions and insufficient to

support debt service on the total preservation cost. This objective seeks to replace equity or soft funding with a new debt product. Given that properties will not have increased revenue to service additional debt, the impact of a new product may be limited unless the terms are very favorable. Freddie Mac appropriately identifies the challenges of meeting investor yield expectations and consolidating investors with diverse geographic restrictions and appetites for risk and anticipates that it will require significant time to develop an infrastructure. Rather than developing another untested infrastructure for delivering gap financing, we encourage Freddie Mac to pursue this objective through partnership with high capacity community development financial institutions (CDFIs), which are skilled in working with mission-driven capital and structuring investments that facilitate complex transactions. While CDFIs regularly blend funds to create innovative products that bridge financing needs, many lack access to long-term capital, making them less able to provide long-term gap/secondary financing in preservation transactions.

As our member, the National Housing Trust has previously commented, new strategies for preservation should expand needed resources available to CDFIs, as well as mission-driven owners and developers that will enable them to strengthen their preservation efforts. Specifically, the Enterprises could promote lending products for preservation activities that do not require uniform underwriting criteria. These loans could be made to CDFIs or developers with strong experience undertaking preservation transactions. Such lending products should include below-market interest rates, flexible amortization and loan terms, low transaction costs, and might include or leverage grants for credit enhancement and underwriting costs.

In addition to CDFIs, select mission driven real estate investment trusts (REITs) provide flexible debt and equity to facilitate affordable housing investment. Freddie Mac should also explore this existing financing structure as a means for providing gap financing. These entity level investments are consistent with Fannie Mae's objective 5 for high needs rural communities, which contemplates entity level investment.

b. Section 202

Roughly half of the rental homes owned by SAHF's nonprofit members are restricted for senior households. Many of those homes were financed under Section 202 Direct Loans and Capital Advances. We applaud Fannie Mae's objectives of considering underwriting changes and increasing their purchase of Section 202 loans. As hundreds of these loans mature in the next five years, the availability of long-term mortgage financing will be critical to the preservation of properties. Fannie Mae's Section 202 objective contemplates purchases of loans refinancing Section 202 direct loans, but does not address the unique challenges of later Section 202 properties financed with Capital Advances and Project Rental Assistance Contracts (PRAC). About one-quarter of SAHF member properties (approx. 32,500 units) were financed with this Section 202/PRAC financing. Unlike Section 202 direct loan properties, Section 202 properties financed after 1991 do not support mortgage debt, and the shorter renewal terms and limited funding under the PRACs create an impediment to preservation. The first cohort of these properties are now approaching thirty years old and are in need of capital repairs to ensure their long term preservation. We urge both Enterprises to use their activities to impact and shape the market for preservation of these properties by conducting a market analysis as is contemplated for Section 202 direct loans

and engaging with stakeholders to explore creative financing solutions for these properties, including entity level investments and portfolio approaches.

c. *Section 515*

We are encouraged by the objectives proposed by each of the Enterprises to develop a meaningful approach or new product for Section 515 preservation (Fannie Mae Statutory Activity C, Freddie Mac Activity 4). As noted in both plans, thousands of units financed under Section 515 will mature in the next ten years and without viable preservation financing may be lost from the affordable housing stock. Given the challenges of the Section 521 Rental Assistance structure and the diverse nature of rural communities, engaging stakeholders in the development of underwriting changes and new offerings will be critical. We urge Freddie Mac to take a deliberate approach to engagement similar to what is articulated in Fannie Mae's Objective 1.

Given the challenges already identified, both Enterprises should plan for an expansive approach to serving the Section 515 rental market, including updates or new offerings that would facilitate portfolio preservation. Enterprises should also explore their offerings and relationships with smaller, local financial institutions and CDFIs as an additional avenue for serving this market and should consider whether a targeted 515 offering for those lenders would be effective.

In light of the large wave of Section 515 maturities approaching, it is critical that both Enterprises move quickly to increase their role in this space. The Freddie Mac plan does not contemplate a loan purchase until year three. Through collaboration with USDA, HAC and stakeholders, the Enterprises should be able to move more swiftly towards purchases. Section 515 properties include a range of subsidy and regulatory profiles. The Enterprises could maximize their impact by making early efforts to expand their purchase of loans on Section 515 properties with PBRA or without any subsidy. These properties are also in need of flexible refinancing debt, but do not present the complexities of properties assisted with Section 521 Rental Assistance. By focusing on less complex purchases while refining creative approaches to reach properties with Section 521 assistance, the Enterprises could potentially impact rural markets and build capacity among the lenders that serve them.

d. *Low Income Housing Tax Credit*

i. *Loan purchases*

The Enterprises' commitment to continuing to purchase loans financing LIHTC properties is appropriate and as discussed more generally above should include more ambitious targets for serving this asset class. While investment in LIHTC is presently tempered by uncertainty in the marketplace, LIHTC will continue to be the primary financing vehicle for construction and rehabilitation of affordable housing.

SAHF members are well versed in the challenges of financing a LIHTC property and are encouraged by Freddie Mac's objective to create a new offering with a streamlined path for financing properties moving towards or already in their extended compliance period. As noted in the discussion of this offering for Section 8 properties, we urge Freddie Mac to engage with stakeholders in designing this product and to identify standards for measuring the savings created by the new offering.

ii. Equity Investments

Under the Duty to Serve final rule, Enterprise LIHTC equity investments will be eligible for Duty to Serve credit in rural areas only. Both proposed plans contemplate investments in rural communities. Spurring LIHTC investment in rural communities could have a meaningful impact on the creation and preservation of rental housing in rural communities. To the extent that an Enterprise resumes LIHTC investments, SAHF encourages a range of investments in developments that preserve federally assisted housing across a broad geography including rural areas, small cities and urban centers, especially properties with expiring subsidies or those in need of refinancing. Based on past periods with less liquidity in the market, these projects are likely to have less investor demand than others. Further, we recommend that the Enterprises invest through multi-investor funds, whose flexible funding is not tied to Community Reinvestment Act (CRA) credit and is more often used for preservation deals which utilize tax-exempt bond financed 4% LIHTC deals.

In some cases, Enterprise investments in LIHTC properties have led to complicated negotiations over disposition at the end of the tax credit compliance period. As part of their Duty to Serve, we urge the Enterprises to observe that their obligation to promote the long-term affordability of properties built or rehabilitated with the use of the LIHTC requires that, whenever practicable, they transfer their partnership interests in LIHTC properties to nonprofit owners with the mission and experience to maintain these properties in good condition and available for long-term affordability.

e. Rental Assistance Demonstration (RAD) Program

We are encouraged by the proposed objectives of both Enterprises to support preservation through the RAD program. Given that Congress increased the cap on the number of units that may be converted under RAD in the Fiscal Year 2017 Appropriations Act increasing the potential for lending, the Enterprises should set more ambitious targets for RAD loan purchases.

f. Energy and Water Efficient Improvements on Multifamily Properties

i. Implement research in parallel with testing new pilots and products

Both Enterprises in their Draft Plans, Objective 1 and 2 for Fannie Mae and Objective A for Freddie Mac, appear to contemplate a significant period of research before they expect to specify and implement new products or product features. We urge the Enterprises to expand their Plans to describe a robust set of product concepts for testing in the market. Many specific, well-grounded concepts may be implemented now with a reasonable basis to expect good outcomes. Small-scale pilot tests could be structured that allow for market-based results while also limiting the GSEs' risk exposure.

We recommend the Enterprises' Underserved Markets Plans prioritize and specify immediate market interventions for Duty to Serve (DTS) borrowers with tests and pilots of new products (or product terms or feature) that support financing of energy and water efficiency improvements.

ii. Enhance consumer research

Consumer research listed in Fannie Mae's Objective 2 should focus on not only deriving consumer insights but also consumers' financing needs, future trends, business models, and

opportunities. Should either GSE incorporate consumer research into it plans, it should have this broader focus.

iii. Improve the GSEs' ability to track loans with energy efficiency elements

We support the high value of the research objectives identified in the Objectives A, B and D in the Freddie Mac Plan and Objectives 2 and 4 in the Fannie Mae Plan. Research is vital, so support and DTS credit for research activities is appropriate. In particular, it is important for the GSEs to improve their ability to track and substantiate how different energy- and water-usage attributes of a home factor into valuation and to understand how these factors change over time. Analysis of energy and water efficiency in the homes covered by GSEs loan purchases should create an ongoing ability to track, not just a one-time investigation.

iv. Utilize and analyze data on all GSE activity related to energy efficiency, not just Duty to Serve eligible loans

The Enterprises should conduct research about energy and water use continually and across the Enterprises portfolios generally, not limited to DTS-eligible transactions. The Enterprises have a strong interest in improving energy and water efficiency in the properties securing their portfolio of loans. We recommend Fannie Mae and Freddie Mac should be engaged in this process beyond and separate from DTS. Research should be structured to inform product management, product development, and risk management across the Enterprise portfolio. The Enterprises research plans should expressly contemplate gathering information outside the conventional loan documents. We encourage the Enterprises to seek information from other sources for purposes of analysis, reporting, and other uses e.g., Home Energy Rating System (HERS) ratings, U.S. DOE's Home Energy Score, LEED and other criteria approved by the FHFA final rule.

FHFA or an external third party could coordinate research work with the Enterprises when the findings would be improved by a larger pool of loans and loan–related data. This would strengthen the Enterprises' plans for research and reporting on energy and water features of properties securing Enterprise loans. We encourage FHFA to explore options for such studies to harness the information residing with both Fannie Mae and Freddie Mac and potentially additional willing data partners such as FHA or even private mortgage lenders, insurers, service providers, or large investors.

v. The Enterprises' Plans should specify working with energy and water efficiency programs such as those administered by utilities.

As discussed in the Final Rule, utilities, state energy offices, and other related parties operate robust programs to support residential energy and water efficiency projects. The programs offer support to homeowners and multifamily (MF) building owners for a wide-range of energy and water efficiency projects.

We encourage the Enterprises to provider greater specificity in their Plans about how they would seek to work with such existing programs. We offer two specific concepts:

(a) The Enterprises should consider "layering" incentives where possible to increase the support delivered to homeowners. For example, many utilities offer a program in which they offer incentives to reduce the out-of-pocket cost for the customer to obtain an energy

audit, and follow-on incentives if building owner installs certain measures recommended by the auditor. The Enterprises could offer additional support for the same interventions.

(b) The Enterprises should clarify the flexibility provided in the Final Rule to rely upon project eligibility for utility incentives to satisfy DTS energy savings and cost neutrality requirements.

Our reading of the Final Rule Commentary is that the Enterprises have additional flexibility to support financing of projects that are eligible for utility program incentives. For example, if a utility program provides incentives for the installation of a heat-pump hot water heater, Fannie Mae or Freddie Mac may support financing of the cost to install the heat-pump hot water heater as an eligible measure without independently substantiating that the measure is cost-effective based on expected energy savings.

Relying on a utility program's eligible measures list may also help the Enterprises avoid certain difficult fact patterns. For example, in the case of a customer replacing essential equipment (like an air conditioner or heater) with a high efficiency model requires a calculation using as the cost the premium for the high efficiency model (not the total cost of installation), and comparing it to a baseline model – calculations that the Enterprises and lenders should not be expected to delve into. Another option to simplify this process is to make Energy Star rated equipment eligible.

vi. DTS plans should connect to products and tests beyond DTS borrowers

Although DTS credit will only occur for supporting financing to DTS eligible borrowers, the Enterprises' DTS Plans should describe products and tests that reach a broader set of borrowers and prospective borrowers, not limited to DTS eligible borrowers. Determining which loans are eligible for DTS credit should occur separately from eligibility for a loan or pilot.

Our comment is based largely on the positive experience of the Fannie Mae and Freddie Mac multifamily "green" initiatives, product improvements implemented separately from the DTS rule, grounded in findings that more efficient properties produce better outcomes for the Enterprises and all stakeholders. It would not make sense to limit eligibility for the MF Green Rewards and Green Advantage products to DTS-eligible customers. Instead, it makes sense to expect the Enterprises to implement ways to identify the subset of transactions that meet the DTS criteria.

Applying the point more generally, Fannie Mae and Freddie Mac should clarify that they will use their available authority to explore options. We understand, for example, that the Enterprises may have the flexibility to purchase, for purposes of research and product development, subordinate-lien loans. The Enterprises may find opportunities to work with a partner - such as lenders originating loans in the MassSaves or NYSERDA programs - that could provide valuable insights.

Prior to the Duty to Serve rulemaking, Fannie Mae and Freddie Mac's multifamily businesses began to examine how energy and water efficiency could be better addressed in their loan products. They found the concept at the heart of the DTS rule – that making EE and water

repairs and improvements will deliver reduced energy expenses, better properties, and better loans, values that accrue to the benefit of the Enterprises, owners, and residents. The Enterprises have implemented loan products that address the problem and provide solutions. They are in a position to work incrementally toward better products as the markets change.

The commitment to correct loan products to account for the values of energy and water pre-dates and is separate from DTS. Duty to Serve, then, for the MF business becomes about finding ways to measure performance and setting benchmarks and goals. In the context of this rulemaking, the Enterprises DTS plans must focus on the narrow terms FHFA has identified for DTS credit. But the Enterprises should acknowledge the value of supporting energy and water related improvements is substantial and offers potential cuts across all Fannie Mae and Freddie Mac activities.

vii. *Set more ambitious goals for multifamily loan purchases, including total energy savings.*

Fannie Mae's draft plan in Objective 6 states that it will purchase at least 25 loans that reduce usage by 15% in year 1, with 25% increase annually. While we wish to recognize and acknowledge the excellent leadership of both GSEs in implementing market-leading products, the goals for the planning period should be more ambitious. The Enterprises should implement a portfolio-based approach, based on a proportion of the loan volume and increase that share of the portfolio every year. DTS plans should also track energy and water savings in properties.

Freddie Mac should set similar specific goals for its multifamily program. Freddie Mac's draft plan does not include specific measures that would indicate progress to DTS objectives. Freddie Mac's plan should be revised to include such goals.

viii. *The Enterprises should do more to advance standardization of energy efficiency improvements in mortgage lending in their Plans.*

For multifamily housing, Fannie Mae and Freddie Mac should consider for their Plans an objective to achieve greater market consistency in the energy and water attributes of the property condition report or assessment required of property owners in connection with purchase and refinancing loans.

The property condition report or assessment identifies the repairs and improvements an owner and lender should expect during the term of a loan. Both Fannie Mae and Freddie Mac use the property condition report to identify needed repairs and improvements in purchase and refinancing. Both Enterprises use a property condition report, along with an energy audit, to identify repairs and improvements eligible for financing with their Green Advantage and Green Rewards financing products.

Greater standardization in the requirements associated with the property condition report would benefit a range of market participants.

We encourage both Enterprises to use their strong leadership capabilities to confer with a wide range of affordable housing finance participants, including CDFIs, state housing finance agencies, energy assessors and auditors, and equipment manufacturers. One question to examine is whether common requirements across the industry for the energy and water elements of the property condition report would be beneficial. While we support the use of

a reliable energy audit, a question to explore is whether a less intensive and less costly assessment for certain types of properties could produce reliable recommendations for less intensive repairs and improvements projects that still fulfill requirements.

ix. Align incentives for market-rate and subsidized multifamily housing

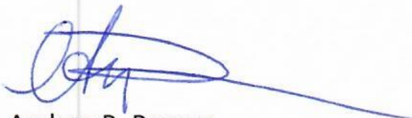
Stakeholders, both housing practitioners and energy-focused groups, observe a tension between two related goals:

1) Increase the overall volume of lending for energy and water efficiency in multifamily, regardless of the tenancy served. This requires economies of scale and some amount of standardization. Advocates for this goal fear that an emphasis on particular subcategories will trade off with overall volume.
2) Ensure that low-income residents in subsidized affordable housing benefit from energy and water efficiency improvements. Preservation of affordable housing is often complicated, requiring customized transactions that add an additional layer of difficulty that can resist standardization crafted for market-rate properties. Advocates for this second goal fear that a focus on total volume will leave affordable housing behind.

We therefore propose a combined objective to address this tension. Each enterprise should identify an achievable percentage (by units) of its total volume of energy and water efficiency loans that would be targeted to restricted affordable housing. Overall points would be based on total volume achieved as long as the enterprise meets the targeted affordable percentage. Total points would be reduced (or potentially increased) by the extent to which the enterprise missed (or surpassed) the percentage of targeted affordable units.

We appreciate this opportunity to comment on the Enterprises' draft plans. We look forward to working with FHFA and the Enterprises to facilitate the preservation of affordable housing. We would be happy to provide additional information on any of our comments. Please feel free to contact me at aponsor@sahfnet.org or (202)737-5973.

Sincerely,



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