

July 10, 2017

Jim Gray
Program Manager
Federal Housing Finance Agency Duty to Serve Program
Office of Housing and Community Investment

RE: Fannie Mae Proposed Underserved Markets Plan

Dear Mr. Gray:

Thank you for the opportunity to comment on the proposed Underserved Markets Plan for Fannie Mae to meet its Duty to Serve obligations. We are a group of regional Community Development Finance Institutions and National intermediaries that serve persistent and high poverty areas throughout the country and in particular, Appalachia, the Mississippi Delta, the Rio Grande Valley, the Central Valley and Native Communities. Collectively, we serve roughly 70% of the nation's persistent poverty counties and parishes. The following letter shares the collective views and recommendations of the following organizations:

The Community Development Corporation of Brownsville (CDCB): CDCB is a private, 501(c) (3) non-profit community housing development organization (CHDO). Founded in 1974, CDCB has been providing safe, sanitary affordable housing to the citizens of the lower Rio Grande Valley, Texas, and is now one of the largest non-profit producers of single-family housing for homeownership in Texas. Over the past five years CDCB has assisted over 2,500 families reach the goal of homeownership. CDCB has originated or packaged over \$140 million in first and second lien loans. CDCB serves two of the poorest counties in the nation in the southernmost area of the United States – Cameron and Willacy Counties, Texas, which shares its border with Mexico on the south, and the Gulf of Mexico on its east.

Fahe: Fahe is a regional, non-profit, financial intermediary based in Berea, Kentucky that provides collective voice and access to capital for the creation of housing and promotion of community development in Appalachia. During FY 2015, Fahe made total direct investments of \$67 million. Total capital under management including investments managed and loans serviced for other organizations topped \$258 million. Since 1980 Fahe has invested \$536 million generating \$1.15 billion in finance. This investment was channeled through our members and community partners, directly changing the lives of 300,000 people.

HAC: The Housing Assistance Council (HAC) has been helping local organizations build affordable homes in rural America since 1971. HAC assists in the development of both single- and multi-family homes and promotes homeownership for working low-income rural families through a self-help, "sweat equity" construction method by emphasizing local solutions, empowerment of people in poverty, reduced dependence, and self-help strategies. HAC offers services to public, nonprofit, and private organizations throughout the rural United States and maintains a special focus on high-need groups and regions, such as: Indian country, the Mississippi Delta, farmworkers, the Southwest border colonias, and Appalachia.

Hope Enterprise Corporation / Hope Credit Union (HOPE): HOPE is a family of development organizations dedicated to strengthening communities, building assets and improving lives in the Delta

and other economically distressed parts of Arkansas, Louisiana, Mississippi and Tennessee. Comprised of a regional credit union (Hope Credit Union), loan fund (Hope Enterprise Corporation) and policy center (Hope Policy Institute), HOPE has provided financial services, leveraged private and public resources, and shaped policies that have benefited more than 650,000 residents in one of the nation's most persistently poor regions.

Native CDFI Network: The Native CDFI Network was established in 2009 to establish and promote policy advocacy and peer learning and partnerships for the Native CDFI field through its member-based not for profit that seeks to improve access to capital and financial inclusion for native communities across the country. Through data collection and impact reporting, NCN expands its member's capacity to implement asset building strategies and reduce poverty. NCN hosts some of Indian Country's longest and strongest performing community development experts and best practices in spite the Industry's short development history.

RCAC: Founded in 1978, RCAC provides training, technical and financial resources and advocacy so rural communities can achieve their goals. For almost 40 years, its dedicated staff and active board, coupled with its key values: leadership, collaboration, commitment, quality and integrity, have helped effect positive change in rural communities across the West. RCAC is a USDA Community Facilities Guarantee program lender as well as a Business and Industry Guarantee program lender.

Rural LISC: LISC is a national non-profit housing and community development organization that is dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. LISC mobilizes corporate, government, and philanthropic support to provide local community development organizations (CDCs) with loans, grants and equity investments; as well as technical and management assistance. LISC has local offices in 31 cities across the country as well as an expansive rural network of 76 community based organizations serving more than 1400 counties. Rural LISC with its vast network is able to assist remote and underserved communities across the country and work with local stakeholders to devise comprehensive community revitalization strategies to access capital to address housing, education, health, safety and other needs in severely distressed communities.

In general, the proposed Underserved Markets Plan represents an important first step of an effort to increase investment in the most underserved rural areas in the United States. At the same time, as organizations with significant track records of housing and community development success in the regions for which Duty to Serve was designed to reach, we would like to see an increased emphasis on the purchase of loans. We would also welcome more specific information on the Enterprises' plan to engage and invest in CDC's and CDFIs as a primary mechanism for increasing the supply of housing in low-income rural areas. Studies and conferences designed to inform a national audience are welcome, but should not be seen as an activity that contributes directly to the Enterprises' Duty to Serve. Credit towards fulfilling that Duty should be awarded for increased lending activity and long term investment in the systems already in place to meet the needs of rural people now and far into the future. As a group, we include specific recommendations related to the single family goals within the Rural Housing Market proposal. For organization purposes, our comments are grouped into three sections:

- Market Research
- Product Development / Changes (single family)
- CDFI / small institution investments

Market Research

Underserved Markets Proposal Areas Addressed:

- **Housing in high-needs rural regions; Objective #1 (outreach and market research through engagement with lenders)**
- **Housing for high-needs rural populations; Objective #1 (outreach and market research through engagement with lenders)**
- **Financing by small financial institutions of rural housing; Objective #2 (outreach and market research through engagement with lenders)**

Forthcoming single family housing market research should include an analysis of income, assets and credit and be conducted in partnership with local / regional community development organizations. Seventeen of the twenty poorest counties in America are within our collective service areas and within the named regions of interest for Fannie Mae (Appalachia the Mississippi Delta, Native Communities and the Rio Grande Valley).¹ Additionally, information retrieved from HAC's Rural Data Portal shows that the Median Applicant Income for people living in rural areas and small towns is \$15,000 less than the Median Applicant Income in the United States.² Likewise, according to the Prosperity Now Asset and Opportunity Local Data Center, the asset poverty rates for counties in these regions are consistently higher than 80% of counties nationwide.³ The low levels of income and assets indicate limits on the ability of rural residents to make large housing down payments or to service a mortgage with high mortgage insurance premiums. Finally, in our experience, credit remains the single largest impediment to obtaining a mortgage.

Ultimately, to effectively reach the stated underserved markets, a deep understanding of the income, asset and credit challenges of our regions is needed using quantitative and qualitative methods. By conducting the research in partnership with local / regional community development organizations, the quantitative findings will be contextualized / grounded in the collective experience of what works. It is also essential that the research methods, data collected and findings be: high quality; and shared widely. It may even be important for the Enterprises to support future data collection and the regular repetition of the analysis by one of our region's university-based research centers.

Product Development / Changes – Single Family

Underserved Markets Proposal Areas Addressed:

- **Housing in high-needs rural regions; Objective #4 (Increase access to Fannie Mae financing by making changes to single-family loan products that increase the population of loans eligible for sale to Fannie Mae)**
- **Housing for high-needs rural populations; Objective #2 (Update, rebrand and market Fannie Mae's Native American Conventional Lending Initiative [NACLI])**
- **Housing in high-needs rural regions; Objective #10 (Expand partnerships to increase access to financial counseling)**

¹ Sources: Census Bureau Population Estimates: <http://www.census.gov/did/www/saipe/>
USDA, Economic Research Service, Rural Classifications: <http://www.ers.usda.gov/topics/rural-economy-population/rural-classifications.aspx>

² HAC Rural Data Portal. "Housing Finance Data, 2013. United States: Rural and Small Town Area.
<http://www.ruraldataportal.org/search.aspx>

³ Survey of Income and Program Participation (SIPP) SIPP and 2008-2012 American Community Survey data.
Prosperity Now Assets and Opportunity Local Data Center. <http://localdata.assetsandopportunity.org/map>

Single Family

We are excited about the inclusion of this goal as it represents one of the most important opportunities for expanding single family mortgage credit to people living in our regions. In addition to the stated goals, we would like to see specific commitments on the number of products to be developed and the naming of the markets in which the products will be tested. Ultimately, to operationalize this objective, Fannie Mae must expand its purchases to include loans with lower credit scores, higher LTV's and higher debt-to-income ratios, particularly when mitigating circumstances exist (high credit score, high LTV for example or non-traditional forms of credit in the instance of a lower credit score associated with medical debt collections).

We would also recommend products be developed to serve single-family homeowners repairing and rehabilitating their homes. The rural housing stock is comprised mostly of single family homes, and is considerably older and in poorer condition than other areas.⁴ The rural population has longer tenures in a home than the rest of the nation.⁵ The poor stock and lesser geographic mobility combine to make rehabilitation of existing single family houses extremely important for rural regions.

Finally, it is important to note that in rural areas, the quality, complexity and price are only important to the success of the product if there are financial organizations able to deliver it for homeowners. In our regions, that is almost always a CDFI or non-profit with long-standing relationships in the community. To be successful, the Enterprises should work collaboratively with local / regional CDFIs and should recruit, train, fund and build the capacity of those existing local organizations to be buyer/sellers.

Single Family - NACLI

With regards to NACLI, we understand that creating an environment for conventional lending on Native American Lands will require an extensive research and assessment process along with developing effective memoranda of understanding to increase mortgage activity. There are also successful lending models with banks and CDFIs that can be replicated. While this effort will take time to get right we would hope that the proposed 275 purchases would be a minimum threshold. The importance of access to capital, particularly secondary market purchases, and capacity building resources cannot be understated to ensure that Native American communities are well positioned to partner with lenders, and utilize best lending practices to substantially expand the number of purchases.

Housing Counseling

We recommend support for housing counseling through direct funding of counseling agencies and community development organizations that conduct counseling. Counseling efforts should be comprehensive and include measures to address challenges associated with student debt – a significant barrier to homeownership.

CDFI / Small Institution Investments

Underserved Markets Proposal Areas Addressed:

- **Housing for high-needs rural populations; Objective #5 (Establish a pilot program for potential entity level investments in non-profit organizations, CDFI, small financial institutions or other entities that have a major focus on high-needs populations)**
- **Financing by small financial institutions of rural housing; Objectives #3 and #4 (Secure regulatory non-objection to provide liquidity by purchasing single-family rural loans through**

⁴ Taking Stock Rural People, Poverty and Housing in the 21st Century. Housing Assistance Council. http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf

⁵ Migration / Geographic Mobility. U.S. Census Bureau. <https://www.census.gov/topics/population/migration.html>

bulk transactions from small financial institutions, and place loans in our portfolio / Increase the purchase volume of single-family loans in rural areas from small financial institutions)

We strongly support the proposal to expand financing by small institutions and recommend that the proposal include a stated goal of expanding financing by regional CDFIs beyond a pilot. Specifically, increased seller / servicing goals among CDFIs located in Appalachia, the MS Delta, the Colonias, in the Central Valley and in Native Communities should be included in the proposed plan to reach Underserved Markets. Success will require streamlining the process by which the Enterprises purchase loans. Even more important will be strategies to increase liquidity among CDFIs that include a mix of long term capital investments (equity equivalent or secondary capital depending on the type of CDFI), purchase agreements of single family mortgages (bulk and flow) and operating grants.

Recently, several of the organizations signing this letter received awards through the USDA Community Facilities Re-lending program. Through the program, 26 community development organizations will gain access to \$401 million in lending authority for qualified projects in persistent poverty areas from the USDA at interest rates significantly below market. To take on the proposed debt by USDA, however, the organizations needed equity to strengthen their balance sheets. The equity needs were helped by the Uplift America Fund. Managed by the Mary Reynolds Babcock Foundation, the Uplift America Fund provided a vehicle for philanthropy to aggregate grants to strengthen capacity of CDFIs, enabling them to take on the USDA debt. In total, \$24 million was raised from regional and national foundations through the Fund and granted to CDFIs.

In the absence of the equity investments, the CDFIs would not have been able to implement the USDA program. While a partnership with Fannie Mae to increase mortgage lending differs significantly, the strengthening of balance sheets within the existing community development infrastructure in high needs rural regions represents the quickest and most sustainable way to increasing housing outcomes in underserved markets.

We recommend that Fannie Mae take on a similar role of strengthening the balance sheets of community development financial institutions and other community development organizations to increase activity in areas of persistent poverty.

Thank you for the opportunity to comment on the Duty to Serve Underserved Markets Plan. We believe strongly in the power of place and urge Fannie Mae to be a productive partner in the building of capacity within our regional community development infrastructure. With long track records of increasing homeownership among families facing long odds, the challenges are known and the solutions are clear. We simply need the resources and the will to take what works to scale. Should you need any additional information, please contact Ed Sivak, EVP Policy and Communications, with HOPE at ed.sivak@hope-ec.org or 601 944-4174.

Sincerely,
(Signatories found on following page)

