July 5, 2021

Sandra L. Thompson
Acting Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20219

RE: Request for Input: Short Term Rental Units in Condominium, Cooperative, and Planned Unit Development Projects

Dear Acting Director Thompson:

Community Associations Institute (CAI) is pleased to submit the following comments concerning the Federal Housing Finance Agency's (FHFA) request for information concerning short-term rentals in community associations.

Summary:

- » CAI public policy supports the right of community association residents, acting through an association board of directors, to adopt regulations governing short-term rental contracts for properties subject to an association's covenants, conditions, and restrictions (CC&Rs).
- » CAI public policy supports full, fair, and equitable access to mortgage credit for consumers seeking to finance the purchase a community association housing unit or to refinance an existing mortgage secured by a community association housing unit.
- » Fannie Mae condominium unit mortgage data show mortgages for owner occupied and second homes outperform condominium unit mortgages for investor properties in periods of market distress.
- » Fannie Mae condominium unit mortgage data indicate underwriting standards and financial shocks influence outcomes for condominium unit mortgages, irrespective of occupancy purpose.
- » Enhanced risk management of mortgages secured by investor-owned properties should not impede access to mortgage credit for owner-occupied and second home properties in community associations.

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CAI Short-Term Rental Public Policy
CAI supports legislative and regulatory initiatives that respect the role of community association boards in formulating and enforcing policy concerning short-term leases (less than 30 consecutive days) on housing units subject to association CC&Rs.[1] A community association board of directors is in the best position to act on behalf of community homeowners in determining if short-term rentals will be permitted in a community and what percentage of units may be leased on a short-term basis. CAI's position is supported by national research showing that 71% of community association residents view CC&Rs as protecting and enhancing property values and that almost 90% of association residents believe their association board serves the best interest of the community as a whole.[2]

Short-term rentals in community associations are often controversial and many association CC&Rs facially prohibit short-term leases. Associations perceive short-term leases as placing additional strains on association resources (e.g., burdening use of common amenities and services) and altering the nature of owner-occupied residential communities.

Increasingly, community association residents are concerned about the impact of short-term rental properties on the availability and pricing of mortgage credit secured by community association housing units. The Federal Housing Administration disqualifies condominium projects from participation in the agency's mortgage insurance programs if units are leased on a short-term or transient basis.[3] As FHFA notes in its request for input, Fannie Mae and Freddie Mac each restrict sellers from delivering mortgages secured by units in condominium projects that provide hotel, concierge, or transient housing services.

CAI Financing Availability for Community Association Units or Lots Public Policy
CAI public policy supports full eligibility and participation of the community association housing model in federally related mortgage programs.[4] CAI supports national, evidence-based underwriting standards for community associations and mortgages secured by association housing units or lots.

The availability of mortgage credit for owner-occupied and second homes in community associations is of paramount importance. CAI does not support federal housing agency underwriting standards that unreasonably limit access to credit for owner-occupied or second homes in residential community associations.

The following analysis of Fannie Mae condominium unit mortgage performance data for owner-occupied, second home, and investor-owned properties may serve as a sample of mortgage performance in community associations. The analysis shows that mortgage performance for all occupancy types is dependent on underwriting standards and the presence of economic shocks.

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[1] CAI Public Policy: Short-Term (Vacation) Rentals
[2] Foundation for Community Association Research, "2020 Homeowner Satisfaction Survey: Community Associations Remain Preferred Places to Call Home", p. 2.
[3] 24 C.F.R. 203.43b(d)(1)
[4] CAI Public Policy: Financing Availability for Community Association Units or Lots

Adjustments to loan level underwriting and loan delivery fees for mortgages secured by investor-owned units in community associations is sufficient to achieve enterprise risk management goals.

Fannie Mae Condominium Unit Mortgage Performance: 180 Day Delinquencies

The performance of condominium unit mortgages delivered to Fannie Mae appears highly correlated to enterprise underwriting standards and economic shocks that destabilize mortgagor finances. Table 1 shows the percent of Fannie Mae acquired condominium unit mortgages by occupancy type that reached a 180 days or greater delinquency by year of origination. Lax mortgage underwriting standards that led to the financial crisis of 2008 had a clear impact on mortgage performance.

Condominium unit mortgages for all occupancy types originated from 2004 to 2008 experienced elevated percentages of 180-day delinquencies. Second home mortgages outperformed mortgages for owner-occupied and investor-owned properties during this period. Mortgages for owner-occupied condominium units marginally outperformed investor-owned unit mortgages in the 2006, 2007, and 2008 origination cohorts.

The percentage of 180-day delinquencies in the remaining origination year cohorts from 1999 to 2020 continue this pattern. The percentage of second home condominium unit mortgages by origination year that experienced 180-day delinquencies is consistently lower than 180-day delinquencies percentage for owner-occupied and investor-owned condominium unit mortgages.

Enhanced mortgage underwriting standards adopted following the financial crisis, improved default mortgage servicing standards, and the general lack of economic shocks through 2019 resulted in a stable level of performance. All occupancy types show significant declines in the percentages of mortgages reaching 180-day delinquencies from 2009 through 2013, with a gradual increase from 2014 through 2019. These data suggest a strong correlation between Fannie Mae acquired condominium unit mortgage performance and Fannie Mae seller delivery standards.

Table 1: Fannie Mae Condominium Unit Mortgage 180 Day Delinquency by Origination Cohort, 1999 – 2020

	Owner Occupied	**Second Home**	**Investor Owned**
	% D180	**% D180**	**% D180**
1999	0.87%	0.99%	1.69%
2000	0.90%	0.30%	0.91%
2001	0.80%	0.42%	1.14%
2002	1.06%	0.56%	1.05%
2003	2.03%	1.25%	1.62%
2004	4.25%	2.88%	3.38%
2005	8.71%	6.50%	7.24%
2006	11.58%	8.89%	11.77%
2007	13.14%	9.29%	14.91%
2008	7.51%	5.75%	9.93%
2009	1.41%	1.09%	1.50%

2010	0.82%	0.73%	0.64%
2011	0.74%	0.66%	0.50%
2012	0.78%	0.64%	0.61%
2013	0.97%	0.68%	0.81%
2014	1.17%	0.82%	1.11%
2015	1.46%	0.98%	1.14%
2016	1.73%	1.01%	1.49%
2017	2.48%	1.34%	2.36%
2018	2.85%	1.58%	2.44%
2019	2.39%	1.36%	2.55%
2020	0.33%	0.19%	0.44%

Source: Fannie Mae Data Dynamics, Single-Family Loan Performance Data Dashboard

Fannie Mae Condominium Unit Mortgage Performance: Net Loss Rate

Examining the net loss rates for Fannie Mae acquired condominium unit mortgages by occupancy type from 1999 through 2020 offers a further dimension of analysis of condominium unit mortgage performance. Consistent with the 180-day delinquency by origination cohort analysis, net loss rates experienced by Fannie Mae mortgages appear highly correlated with the quality of mortgage underwriting and seller delivery standards.

Net loss rates for second home condominium unit mortgages by origination year cohort are lower than owner-occupied and investor-owned condominium unit mortgages, but the margin of difference is narrower compared to the percentage of 180-day delinquencies. Owner-occupied condominium unit mortgages again outperform investor-owned condominium unit mortgages from 2006 through 2009 with net loss rates diminishing and stabilizing across all occupancy types beginning in 2010. This is again attributable to the adoption of improved underwriting and delivery standards, improved mortgage servicing and loss mitigation standards, and the absence of large economic shocks.

Table 2: Fannie Mae Condominium Unit Mortgage Net Loss Rate by Origination Cohort, 1999 – 2020

	Owner Occupied	**Second Home**	**Investor Owned**
	Net Loss Rate	**Net Loss Rate**	**Net Loss Rate**
1999	0.0512%	0.0381%	0.0103%
2000	0.0684%	0.0177%	0.0995%
2001	0.1030%	0.0309%	0.1598%
2002	0.1917%	0.0811%	0.2331%
2003	0.3844%	0.1799%	0.3650%
2004	1.0834%	0.8812%	1.2149%
2005	3.0823%	2.8204%	3.5924%
2006	4.3999%	4.0493%	5.6111%
2007	3.9970%	3.1113%	5.7271%
2008	1.5445%	1.3921%	2.5172%
2009	0.2241%	0.1780%	0.2853%

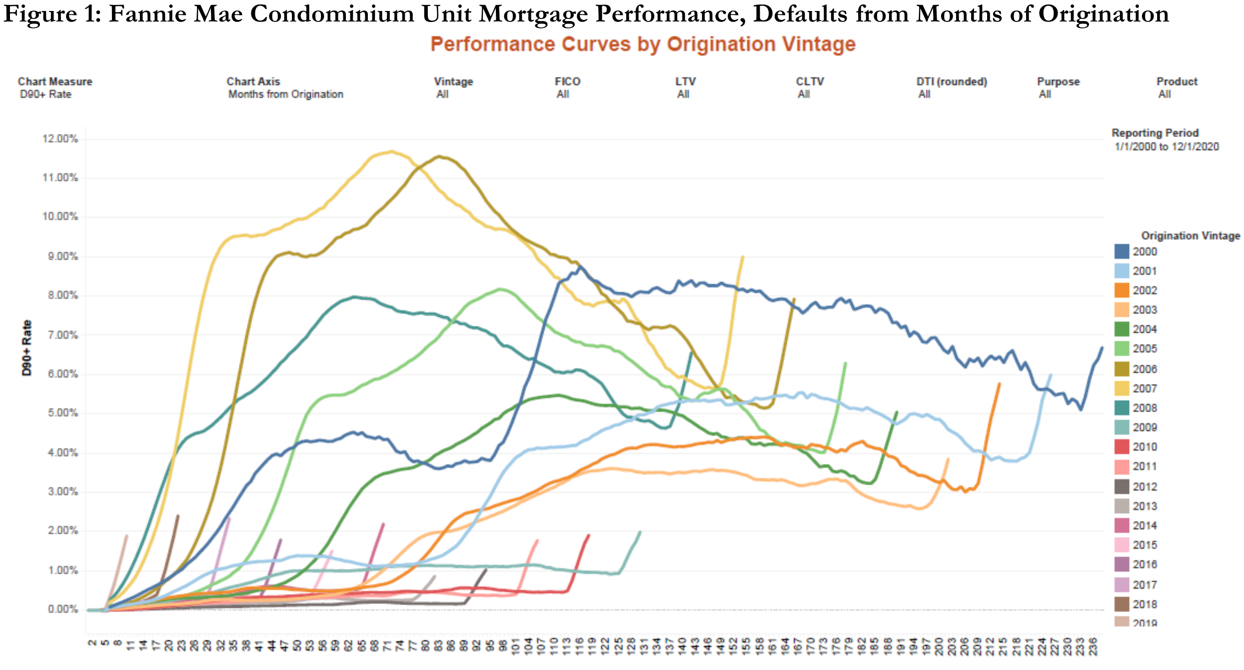
2010	0.0562%	0.0289%	0.0503%
2011	0.0260%	0.0303%	0.0088%
2012	0.0081%	0.0070%	0.0031%
2013	0.0078%	0.0045%	0.0034%
2014	0.0091%	0.0026%	0.0018%
2015	0.0086%	0.0003%	0.0069%
2016	0.0055%	0.0007%	0.0002%
2017	0.0095%	-0.0001%	0.0023%
2018	0.0044%	0.0001%	0.0087%
2019	0.0009%	0.0000%	0.0000%
2020	0.0000%	0.0000%	0.0000%

Source: Fannie Mae Data Dynamics, Single-Family Loan Performance Data Dashboard

Fannie Mae Condominium Unit Mortgage Performance: Impact of Economic Shocks
The variable having the greatest impact on Fannie Mae condominium unit mortgage performance is an economic shock. Figure 1 shows the impact of economic shocks on condominium unit mortgage performance by illustrating the number of months between origination and 90-day delinquencies for Fannie Mae acquired condominium unit mortgages.

A rapid increase in 90-day delinquencies for condominium mortgages originated during 2004 through 2008 is observable during the 2008 financial crisis. As the economy stabilized the rate of delinquencies declined. The COVID-19 pandemic and following economic recession initiated a spike in 90-day delinquencies across all origination year cohorts.

Figure 1: Fannie Mae Condominium Unit Mortgage Performance, Defaults from Months of Origination



Source: Fannie Mae Data Dynamics, Single-Family Loan Performance Data Dashboard

Fannie Mae Data Indicate Underwriting Standards, Economic Shocks are Key to Condominium Unit Mortgage Performance

Using Fannie Mae data as a measure of general community association unit mortgage performance across the housing finance system, it is clear the main drivers of mortgage performance and enterprise credit risks are underwriting standards and economic stability. Delinquencies and losses increase in the presence of lax underwriting standards and economic shocks and decrease in the absence of these variables. There is no evidence in these data to support a conclusion that investor-owned mortgage defaults drive defaults of owner-occupied or second home mortgages.

While these data do not indicate significant losses to Fannie Mae from investor-owned community association housing unit mortgages, the enterprises have adopted seller delivery guidelines that will reduce acquisition of such mortgages in condominium associations. The enterprises indicate these actions are prudential measures to reduce credit risk consistent with their statutory mandate to foster a liquid and resilient secondary mortgage market.

In taking such prudential measures, CAI urges the enterprises to ensure continued access to owner-occupied and second home community association housing unit mortgage credit. Blanket bans on the delivery of loans secured by community association housing units in a geographic location may have an overly broad impact and impede mortgage access for owner-occupied and second home housing.

If the enterprises desire to further reduce risks associated with short-term rentals by investor owners, CAI believes a more tailored approach could achieve a similar end. The enterprises assess loan-level price adjustments (LLPAs) for mortgage loans on the basis of a range of criteria, including property type (e.g., condominium unit), combined loan to value ratio, and occupancy, among others.[5] The enterprises could adjust LLPAs for investor-owned property mortgages to account for greater credit risks as a tailored prudential risk management strategy. Such a strategy would enable the enterprises to address risk management concerns without negatively impacted the flow of credit to community association ownership households in all geographic regions of the nation.

Thank you for the opportunity to respond to FHFA's request for input concerning short-term rentals in community associations.

Sincerely,

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[5] Fannie Mae Loan-Level Price Adjustment Matrix, May 26, 2021.