GROUNDED SOLUTIONS NETWORK

October 24, 2021

Ms. Sandra Thompson
Federal Housing Finance Agency
Office of the Director
400 7th Street SW, 10th Floor
Washington, D.C. 20219

RE: Enterprise Equity Housing Finance Plans RFI

Dear Acting Director Sandra Thompson and esteemed colleagues,

Grounded Solutions Network would like to thank the Federal Housing Finance Agency (FHFA) for the opportunity to provide public comments for the Request for Input on the Enterprise Equitable Housing Finance Plans (EEHFPs) released September 2021. We are deeply heartened that FHFA is taking the obligation of the Enterprises to advance equity in housing finance seriously. In light of the sweeping and lasting racial disparities in mortgage lending, we fully support the emphasis on Black, Indigenous, and people of color (BIPOC).

Grounded Solutions Network is a national nonprofit membership organization of over 220 nonprofits and local governments across the U.S. that are committed to creating and preserving housing with lasting affordability to advance racial equity. Grounded Solutions defines lasting affordability as both rental housing with long-term or permanent periods of affordability and shared equity homeownership models that restrict the resale pricing of homes to keep them affordable in perpetuity. This includes models, such as community land trusts, shared equity homeownership (SEH) programs, and inclusionary zoning/housing programs. Grounded Solutions partners with local organizations and practitioners, supporting a field that provides at least 255,000 shared equity homes for low- and moderate-income families.

We provide training, technical assistance, technology solutions, resources, and research for our members and POC-led nonprofits and community groups adopting community land trusts, shared equity homeownership, and other permanently affordable housing solutions. We also recognize that systems change requires structural work on the policy level; therefore, we engage in local policy development with community leaders and policy makers as well as local, state, and federal advocacy work to alter racist housing and land use policies into enabling environments that advance racial and economic justice.

Because of our specialization in permanently affordability and shared equity homeownership models to advance racial equity, this letter is going to focus in large part on aspects of the RFI relevant to these topics. But first, we will share the reason why shared equity homeownership can play such a critical role in reaching the objectives of the proposed Equitable Housing Finance Plans. The letter will then provide comments on three main areas of the RFI: (1) reducing the racial and ethnic homeownership gap, (2) increasing the supply of affordable housing, and (3) reducing racial or ethnic disparities in servicing, loan modifications, and loss mitigation. Please note that in the headings, the most relevant question numbers from FHFA's RFI are referenced for ease of review.

How Shared Equity (aka Permanently Affordable) Homeownership Advances Racial Equity

Grounded Solutions Network 220+ nonprofit and local government members create permanently affordable homes through community land trusts[1] and other shared equity homeownership (SEH) models[2] to advance racial equity and inclusion. These SEH programs enable Black and Brown households and lower income households— who would otherwise be unable to become homeowners in the private market—access and sustain ownership. Because the homes remain affordable in perpetuity to serve lower income households and people of color, this stock contributes to building racially and economically integrated neighborhoods over time, ensuring the affordable stock remains intact as neighborhoods grow richer in opportunity.

SEH programs enable lower income families and Black and Brown families to purchase homes at substantially discounted prices, usually 25-50% below market value. Lower purchase prices mean much lower down payments and make mortgage payments affordable. The below market-rate purchase price provides sufficient equity for the buyer to avoid mortgage insurance and provides a buffer against the risk of declining home prices. Lower down payment, lower monthly mortgage payments, no mortgage insurance and protection from market downturns removes the key barriers facing lower income Black and Brown households seeking to *attain* homeownership. These programs don't just help buyers get into ownership but also provide ongoing support to ensure homeowners can maintain their homes, weather financial shocks, and *sustain* ownership over time.[3]

The homeowners build wealth by paying down mortgage principal and receiving a share of the home's appreciated value at sale. In return for a below market purchase price and ongoing support, homeowners agree to pay the opportunity forward by selling their home below market value to another lower income family in the future. Unlike typical down payment assistance programs, the SEH model *preserves the homes' affordability permanently* to help family after family who reside there.

Permanently affordable homeownership enables families to build wealth, which most use to then purchase homes in the private market. Beyond catalyzing economic mobility, the model buffers the adverse impacts of gentrification by *creating a stock of owner-occupied homes that remain forever affordable* even when neighborhood housing values increase. Taken to scale, the homes *create racially*

[1] Community land trusts are nonprofits that obtain and hold community-controlled land in trust in perpetuity, and—based upon community needs— the land is used to provide affordable housing, commercial or green spaces. CLTs are best known for their permanently affordable homeownership model, shared equity homeownership.

[2] Shared equity homeownership are programs located in nonprofits or governments that provide resale-restricted, owner-occupied housing for lower income households that remains affordable in perpetuity. The term "shared equity" has been appropriated by for-profit fintech companies and even some government down payment assistance programs, but these other models do *not* ensure that homeowners accumulate wealth *and* that homes remain affordable resale after resale for lower income households.

[3] Top causes for why people of color lose their homes are "trigger events" like a car breaking down, unforeseen medical expenses, un(der)employment, which can also result in deferred maintenance leading to foreclosure or unsafe, unhabitable homes.

and economically integrated communities, providing lower income Black and Brown households with access to higher opportunity neighborhoods.

A recent evaluation of 58 shared equity homeownership programs and transactions on 4,108 properties over the past three decades found that: (1) SEH programs are increasingly selling homes to more people of color, (2) 95% of all the homes were affordable to households at or below 80% AMI, (3) on average, programs are selling homes for 31% below their fair market value, (4) homeowners are building wealth, and (5) homes are remaining affordable to households of the same income level resale over resale[4].

Hence, shared equity homeownership can play a vital role in the objectives listed in the RFI, especially in reducing the racial and ethnic homeownership gap, reducing racial or ethnic disparities in the share of loans acquired by the Enterprises, increasing the supply of affordable housing, and reducing racial and ethnic disparities in loss mitigation.

Comments on Reducing the Racial and Ethnic Homeownership Gap [Q6 & Q11]

Not the only contributor, but a top driver of the racial and ethnic homeownership gap is the lack of supply of low-cost, high-quality homes. Shared equity homeownership is the only affordable homeownership model to solve this issue on multiple levels. First, SEH programs ensure that homes are high-quality and in optimal condition for a lower income buyer because they are stewarding the asset and supporting the homeowner after investing a substantial amount of funds to discount the home to an affordable purchase. Put differently, the program has a vested interested in the success of the homeowner to ensure they build wealth and that the home remains affordable for subsequent homebuyers. Second, SEH programs sell the homes substantially below their fair market value to the buyer, resulting in a lower monthly mortgage and no mortgage insurance. Still further, because the Loan-to-Value on the homebuyer's mortgage is so low since the program is subsidizing the difference between the market value and discounted price, underwriting is less stringent and affordable loan products that cost the buyer more are not needed. Notably, the discounted prices of shared equity homes are far lower than down payment assistance programs, enabling more people of color to become homeowners because shared equity homes reach lower income households. Third, shared equity homes are *forever* going to remain affordable to Black and Brown lower income households. Hence, figuring out how to increase the supply of shared equity homeownership opportunities results in a larger impact now and into the future on closing the racial and ethnic homeownership gap.

Therefore, FHFA should strongly encourage—if not require—the Enterprises to incorporate objectives, goals, and activities related to shared equity homeownership. It should be noted that through duty-to-serve, both Enterprises are working to increase access to mortgages for borrowers in shared equity homeownership programs, and we strongly encourage both Enterprises in their Equitable Housing Finance Plans to include objectives related to shared equity homeownership and pursue deeper and bolder activities that ultimately result in expanding the supply of shared equity homes.

[4] Ruoniu Wang, Claire Cahen, Arthur Acolin, and Rebecca J. Walter. (2019). Tracking Growth and Evaluating Performance of Shared Equity Homeownership Programs During Housing Market Fluctuations. Cambridge, MA: Lincoln Institute of Land Policy. Retrieved from: https://www.lincolninst.edu/publications/working-papers/tracking-growth-evaluating-performance-shared-equity-homeownership

Comments on Affordable Housing Supply

Grounded Solutions Network recommends that FHFA promotes the Enterprises to pursue focused activities that are coherent, deep, and likely long-term in order to have a transformational impact on racial and ethnic equity through increasing the affordable housing supply. However, we also strongly encourage "supply" to have a broad definition and that FHFA allots sufficient flexibility to enable the Enterprises to pursue short-term and long-term creative strategies (including investments) to ultimately reach objectives related to supply. Our recommendations to maximize the impact of supply objectives on racial equity are below.

Focus on Supply/Increasing the Number of Affordable Housing Units [Q1, Q6, & Q11]

A primary objective in the RFI is to increase the supply of affordable housing, and we strongly encourage the Enterprises to focus and prioritize this. A fundamental issue underlying racial and ethnic equity is the lack of affordable housing, especially the lack of affordable homeownership opportunities, and this problem is being exacerbated by an overall housing supply shortage relative to demand in many places.

Many other objectives are positively impacted if the amount affordable housing is, in fact, increased. For instance, it's challenging to address the homeownership gap across racial and ethnic groups unless there is a greater supply of affordable homes for purchase. Additionally, it is challenging to address underinvestment in racially or ethnically concentrated areas of poverty or other underserved areas unless there is new affordable housing to invest in that can be accessed by BIPOC. We strongly encourage FHFA and the Enterprises to pursue focused goals related to increasing the supply of affordable housing, particularly through increasing the number of affordable homeownership and shared equity homeownership units to reduce the racial and ethnic homeownership gap, reduce the racial and ethnic wealth gap, and create a permanently affordable homeownership stock that benefits the first homebuyers and all subsequent homebuyers. Hence, we believe that a major emphasis of the Enterprises' objectives, goals and activities should focus on increasing the number of affordable housing units.

Define "Supply" Broadly [Q8]

"Supply" should not only be defined as increasing liquidity or supporting the construction of new affordable rentals and homeownership units, but it should also include the preservation of existing affordable housing as well as "naturally" occurring affordable housing *and* proactive approaches to acquire land or market-rate housing (naturally affordable or not) that may become affordable housing over time. It is not possible to build our way out of the supply shortage; therefore, it is vital that more market-rate housing is brought into the affordable housing space in order to advance racial equity.

Simplify Objectives Related to Supply & Underinvestment [Q3 , Q4, Q8 & Q11]

We have concerns that the RFI is introducing unnecessary complexity through nuancing the objectives related to "increasing supply" and "reducing underinvestment." We are commenting on both of these because increasing the affordable housing stock and reducing underinvestment in underserved areas (including racially or ethnically concentrated areas of poverty, RECAPs) are related in many ways. We acknowledge that the Enterprises can reduce underinvestment in other ways (e.g. purchasing single-family mortgages or lowering barriers for accessing mortgages). However, if the Enterprises meaningfully contribute to creating more affordable housing in underserved areas and buy the associated loans, then these objectives overlap.

We are concerned that the current proposed objectives in the RFI are overly complicated and likely to have unintended consequences despite best intentions. The development and implementation on these plans should learn from Duty to Serve, whereby overly nuanced objectives, goals, or definitions have often resulted in too much time and too many resources being spent on operationalization of various concepts/markets/definitions, or alternatively, activities end up being fragmented and less impactful to ensure all objectives are being met. We fear that may be replicated here.

Addressing supply by increasing the number of affordable homes, especially through creative solutions that lessen the reliance on public subsidies, would be—in and of itself—contributing to racial equity. This is particularly true when coupled with other activities, such as building and increasing access to credit, expanding the number of qualified borrowers of particular racial or ethnic groups, prohibiting discriminatory practices, advancing fair housing, reducing racial or ethnic disparities in the share of loans acquired by the Enterprises, and addressing undervaluation in communities of color.

In light of this, we question the need to specify particular areas or populations beyond "increasing the supply of affordable housing that may serve BIPOC". The Enterprises need to have the flexibility to take advantage of emerging opportunities that will increase the stock of affordable housing able

Illustrating How Complexity & Lack of Clarity in RFI Results in Unclear Intent/Unintended Consequences

The RFI includes the following required objective: *Reducing underinvestment or undervaluation in formerly redlined areas that remain racially or ethnically concentrated areas of poverty or otherwise underserved or undervalued.* This begs the questions:

- How will the following be defined: (1) "underinvestment", (2) "undervaluation", (3) "formerly redlined areas", (4) "remain racially or ethnically concentrated areas of poverty", and (5) "otherwise underserved or undervalued"?
- Knowing that some historically redlined areas are now white affluent areas that have displaced former residents who were people of color[1], should other racially and ethnically concentrated areas of poverty be less important to serve?
- Are there racially or ethnically concentrated areas that are lower income but not necessarily meeting the definition of a RECAP that are also experiencing underinvestment or undervaluation? For instance, it is highly probable that low- and moderate-income communities of color with high homeownership rates are experiencing undervaluation.

Ultimately, are all the concepts in this objective necessary or is the intent ultimately to "increase investment and prevent undervaluation of properties in racially or ethnically concentrated areas"?

Another optional objective in the RFI is: *Reducing underinvestment or undervaluation in other (non-redlined) areas that remain underserved or undervalued.* This begs the questions:

- If an area was not historically redlined, do we no longer care whether it is a RECAP?
- Could the unanticipated consequence of the required objective above and the language of this optional objective be that historically redlined areas that aren't concentrated areas of poverty but are underserved or undervalued get less attention from the Enterprises than non-redlined areas?

Ultimately, is it really necessary to have a separate objective for non-redlined areas or can there be one objective to address the broader history of racism in housing policy by focusing on serving areas that are now racially and economically concentrated areas?

to address racial and ethnic disparities in homeownership and access to affordable housing (and not just through their mainstream products on deals subsidized by federal programs).

These emerging opportunities may not fit cleanly into one of the RFI's specified areas or populations. And further, innovative solutions may change who they serve over time in order to take market-rate housing into an affordable housing use. We do not want to dissuade the Enterprises from pursuing harder and more innovative activities because it is not squarely in one objective set forth in the RFIs. Put differently, we would encourage the FHFA to direct the Enterprises to focus on increasing the affordable housing supply that may serve BIPOC. Let's make them work to strategically push on reaching significant impacts on increasing the supply of affordable housing rather than work on fragmented, less effective efforts to check off multiple boxes.

Illustrating How Complexity & Lack of Clarity in RFI Results in Unclear Intent/Unintended Consequences (cont.)

Another instance where the language in the RFI is over-complicated and will likely result in unanticipated consequences pertains to the optional objectives related to "Increasing the supply of affordable housing." The RFI includes:

1. *Increasing the quality of the supply of affordable housing available in racially or ethnically concentrated areas of poverty*
2. *Increase the supply of affordable housing available in areas with access to educational, transportation, economic, and other important opportunities*
3. *Increase the supply of affordable housing that is accessible for persons with disabilities and available in the most integrated setting appropriate to the needs of an individual with a disability*
4. *Increase the supply of affordable housing available to families with children in areas with access to educational, transportation, economic, and other important opportunities.*

This begs the questions:

- How are the following defined: (1) "affordable housing", (2) "access to educational, transportation, economic, and other important opportunities", (3) "most integrated setting appropriate"?
- Depending upon how "areas with access to …opportunities" is defined, what about places that are not RECAPs or higher opportunity today, but are places where intervention could greatly increase the supply of affordable housing (or market-rate housing that can be converted to affordable housing) and down the road end up becoming areas of opportunity? Similarly, what if the "in-between" places have a lot of stock that suits families with children?
- Many RECAPs also need increases in the supply of affordable housing, not just improvements to the quality of the existing stock. Why does the objective not include both "Increasing the quality and the supply of affordable housing…?"

Ultimately, is it really necessary to have four objectives with qualifiers related to increasing the supply of affordable housing? Is it possible that impacts could be maximized by allotting flexibility to increase affordable supply that may serve people of color?

Add "Increasing the Supply of Shared Equity Homes/Permanently Affordable Housing" to Objectives [Q5, Q6, & Q11]

We strongly encourage FHFA and the Enterprises to add increasing the supply of permanently affordable housing if supply objectives are going to have specific targets beyond BIPOC. And if the Enterprises are going to meaningfully engage in the creation and preservation of affordable housing, they should also be required to focus on ensuring that housing remains permanently affordable. A significant contributor to the current housing affordability crisis is that when we invest taxpayer dollars into the creation of affordable housing, it ends up converting to market-rate and losing the public investment between 5-20 years later. Generally, it doesn't get cheaper to create new affordable housing, and it's extremely costly to preserve affordable housing once it has aged out of its affordability restrictions. Therefore, it will be far more financially efficient and impactful to figure out ways to keep what we have created because over time we are going to lose more affordable housing units than we are able to replace. Put differently, to actually increase the overall supply of affordable housing, we cannot continue to lose affordable housing due to expiring affordability terms resulting in the loss of public subsidies[5]. FHFA and the Enterprises need to fully embrace that permanently affordable housing *is* housing equity, and it is the pathway to fundamentally increase supply.

Still further, in many places, affordable housing helps to revitalize areas that attract market-rate investment, but the affordable housing ends up aging out of its affordability restriction once the neighborhood finally becomes a higher opportunity area. Lower income residents can be displaced and unable to afford to stay in their communities, which is disproportionately affecting Black and Brown households.

The Enterprises should be encouraged to pursue research, development, and innovation on how to enable affordable rental projects to adopt very long-term or lasting affordability restrictions. For instance, the Enterprises could document best practices and lessons learned from housing finance agencies that have adopted permanent affordability requirements in their Qualified Allocation Plans. Alternatively, they could research, test, and promote the adoption of lifecycle underwriting[6], whereby additional repair and replacement reserves on the front end can minimize extremely higher costs associated with recapitalization at year 15.

On the homeownership side, the only permanently affordable models are shared equity homeownership models. As explained above increasing access to shared equity homes and expanding the supply of shared equity homes will substantially contribute to closing the racial and ethnic homeownership gap now and into the future while also building inclusive communities. Both Enterprises should incorporate activities into their plans to increase the supply of shared equity homes and increase liquidity in this market.

Require Short-term and Long-term Flexible Approaches to Reach Supply Objectives [Q3 , Q4, & Q8]

Innovative strategies will require longer term goals and activities that extend many years into the future to ultimately result in affordable housing. For instance, the Enterprises may be able to support research and development of flexible local or national Acquisition Funds that are purchasing land or market-rate properties that take time and resources to turn into affordable housing. They should be able to make investment in innovative funds that create affordable housing though providing long-term subordinate debt or equity investments.

[5] Vincent Reina. (2018). The Preservation of Subsizied Housing: What We know and Need to Know. Cambridge, MA: Lincoln Institute of Land Policy. Retrieved from: https://www.lincolninst.edu/publications/working-papers/preservation-subsidized-housing

[6] Jeffrey Lubell. (2014). Housing More People Effectively through a Dynamic Housing Policy. Washington, DC: Bipartisan Policy Center. Retrieved from: https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2019/03/BPC_AbtAssociates_Housing_Paper.pdf

Advancing research and development or feasibility testing of innovations should be supported, and it is vital that the Enterprises have flexibility to support efforts that are acquiring land or market-rate housing, which will turn into affordable housing in the future (as this is a strategy that may result in less reliance on public subsidies and increase the overall stock of affordable housing).

Hence, FHFA should promote the Enterprises to set short-term goals and activities, which can result in incremental but important change sooner, as well as long-term goals and activities, which can result in new avenues to increase the stock of affordable housing and new strategies, systems, or policies that more substantially impact equity.

Encourage Creative Solutions & Investments to Reach Supply Objectives [Q6]

For the Enterprises to have a real impact on the supply of affordable housing, they will have to pursue innovative strategies for creating or preserving housing that becomes affordable over time. It must also be acknowledged that the Enterprises current participation in the affordable housing space is simply lending—generally for a profit—on multi-family rental and some single-family homeownership units that are publicly subsidized. Therefore, the Enterprises will be constrained by the subsidy dollars available to contribute to producing or preserving affordable housing *unless* the Enterprises are permitted to pursue investments in affordable housing and supported to explore creative innovations that limit the reliance on public subsidies for the creation or preservation of affordable housing (which will likely also require investments).

While there are times when the Enterprise lending is truly filling a gap, the Enterprises will have a hard time making any meaningful contribution on the supply/increased number of affordable units unless they are able to make investments and grants in this space. Per the statutory intent of the Housing & Economic Recovery Act, FHFA should permit the Enterprises to make investments in affordable housing that advance racial equity.

An Exemplar of Innovation that Freddie Mac Should Be Able to Include in Equitable Housing Finance Plans & Provide Investment to Scale Shared Equity Homeownership for Racial Equity [Q6 &q Q8]

Grounded Solutions Network in partnership with Freddie Mac is exploring the feasibility of a Fund that would intervene in the single-family rental market for reaching a mission-based outcome. The Rent-to-Shared-Equity Fund would acquire relatively low-cost single-family properties in select markets in mid-sized and larger cities, which are experiencing rising housing values and displacement pressures. The fund will then rehab the homes, responsibly rent them for roughly 7-10 years, and then convert them to shared equity homeownership to serve lower income households and people of color, enabling access to affordable homeownership while ensuring the homes remain permanently affordable as housing values rise and the neighborhood becomes every richer in opportunity. This fund model enables the stock of shared equity homes to grow with minimal to no reliance on public subsidies, increasing the supply of affordable homeownership opportunities. Market-rate properties in these markets are vulnerable to speculative investment by single-family rental investors, house flippers, and demolition for new construction. The R2SEH Fund will take a stock of market-rate housing and convert it to permanently affordable housing, which will provide lower income households the ability to attain and sustain homeownership in neighborhoods that are growing richer and richer in opportunity as housing values continue to increase.

This is the type of innovation that the Enterprises should be encouraged to support through investing in the research and development of such a fund, supporting the start-up of the Fund until it is sustainable and able to reach adequate deployment, and providing long-term patient capital in the form of equity, guarantees, and/or patient capital.

Comments on "Reducing racial or ethnic disparities in servicing, loan modifications, and loss mitigation" [Q6]

Freddie Mac is also currently working with Grounded Solutions Network on an innovative loss mitigation proof-of-concept aimed at helping lower income and Black and Brown distressed homeowners suffering from COVID-19-related hardships to be able to keep their homes and avoid displacement. The proof-of-concept in development would provide households the option to opt-in to shared equity homeownership in exchange for substantially lowered monthly payments, which is provided by a local nonprofit investing funds into the home to address deferred maintenance and get the homeowner into a sustainable, affordable mortgage. This option is designed to serve households who have the financial capacity to resume monthly payments when the forbearance period expires but require a reduced payment beyond what is available through a standard load modification. The goal is to help homeowners preserve homeownership and existing equity while simultaneously creating shared equity homes. Due to the known racial and ethnic disparities in the adverse impacts of the pandemic, it is expected that this initiative will serve people of color who otherwise may be faced with foreclosure or displacement.

This is the type innovation that we hope the Enterprise will pursue to advance housing equity while contributing to the supply of affordable homes through shared equity homeownership models. In order to make this initiative more scalable and viable to serve more lower income households and people of color, the Enterprises should reduce the principal owed by the distressed homeowner so that less public subsidy is needed to convert the homeowner's property into a shared equity home. Additionally, FHFA and both Enterprises should work to make this proof-of-concept readily available and scalable so that short sales, foreclosure, or forced sales resulting in displacement can be avoided for lower income households and people of color affected by the pandemic.

Thank you to FHFA for providing a change for public input and for considering recommendations that we believe will ultimately lead to major impacts in racial equity in housing.

Sincerely,

Emily Thaden

Emily Thaden
VP of National Strategy