Esperanza
Strengthening Our
Hispanic Community

October 25, 2021

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

RE: GSE Equity Housing Finance Plans

Dear Acting Director Thompson:

Thank you for the opportunity to provide input on the Enterprises' implementation of three-year Equitable Housing Finance Plans. I applaud your initiative in starting this dialogue with key stakeholders and potential partners that can have dramatic results in increasing the long-term supply of affordable housing in HUD-defined extremely and low income majority-minority communities across the nation.

I submit these comments on behalf of Esperanza, where I have the honor of serving as its Founder and CEO. Since 1987, Esperanza (https://www.esperanza.us) has confronted poverty, disinvestment, blight, and lack of economic opportunity in the extremely and low income, Hunting Park neighborhood of Philadelphia. Esperanza operates as a nonprofit community development corporation (CDC) with an annual budget of $55 million, a real estate asset portfolio of $125 million, and more than 550 employees. Furthermore, I helped start a de novo minority depository institution in the late 1980s, the United Bank of Philadelphia. I also have served on the board of directors of a GSE, the Federal Home Loan Bank of Pittsburgh, as an Independent Director from 2002 until December 2021. During that tenure, I served as Vice Chairman of the Board and Chairman of the Affordable Housing, Products and Services Committee. The FHFA considers me a community development specialist.

The range of things Esperanza does is quite broad. Many of Esperanza's efforts are directed at housing including housing counseling, affordable rental and ownership housing development, and the establishment and operation of community land trusts. We are also engaged in economic development, employment services, immigration legal services, healthcare, and education (a 1,700 student K-12 charter school, a two-year College, and a cyber school). In the arts, we manage a state-of-the-art 300-seat black box theater and Artistas y Músicos Latinoamericanos among other programs.

Before turning to the specific questions asked, I would like to address a range of broader points that will help answer several of the questions posed.

I. General Comments

As Esperanza raises capital to address housing needs in the extremely and low income Hispanic community it serves, the ability to use federal credit resources to expand sources of capital by lowering the cost and extending maturities would make a real difference. We are delighted to participate in this important public conversation about thoughtful, considered new efforts by the Enterprises to address the critical challenge of increasing the supply long-term affordable rental housing units.

The Enterprises represent a federal credit program charged with meeting unmet credit needs in communities and doing so in a safe and sound manner. Safety and soundness must be part of any GSE effort. While low risk is mandatory, zero risk is self-defeating.

Leveraging the Enterprises' statutory foundation and the capital market strength to increase the supply of affordable rental housing in extremely and low income minority communities is challenging but will promote equity in housing finance. By leveraging their capital market strength, the Enterprises can foster new financial resources for minority-led nonprofit CDCs. In this effort, the Enterprises should work with local leaders with established track records

Under the new direction set by the FHFA and fostered by the three-year plans envisioned by the Request For Information, the Enterprises can play a key role in enabling the next generation of minority families to find affordable rental housing. This will help build financial stability and potential wealth accumulation among extremely and low income families

II. Enterprise plans must increase the long-term supply of affordable rental housing

There are critical areas of inequity in the realm of minority homeownership. The Enterprises can make significant improvements meeting minority underrepresentation in Enterprise mortgage purchases that serve aspiring minority homeowners. Many respondents to the RFI will no doubt focus on these important matters.

Nonetheless, homeownership in and of itself should not be the only goal. Homeownership does not make sense for the extremely and low income minority community. The challenges of extremely and low income families to secure affordable, stable rental housing are significant and differ from challenges involving homeownership.

Homeownership programs that help extremely low income purchasers in markets that previously suffered from redlining but are now experiencing gentrification may not transfer wealth to the next generation that will not be able to afford ownership in those markets. In extremely and low income markets experiencing gentrification such as Hunting Park, the solution is providing affordable rental housing to establish financial and social stability for individuals and families.

A. Building long-term rental housing assets

A key area on which the Enterprises should focus is long-term affordable rental housing stock. Housing Choice Vouchers and the Low Income Housing Tax Credit (LIHTC) are the lynchpins of federal affordable rental housing efforts and nothing should change that. These programs, however, will not solve all rental housing needs of extremely and low income families. In some areas, elements of this housing stock are facing the risk of conversion to market rental housing, which will exacerbate the situation.

1. LIHTC: As described by a report issued by the National Low Income Housing Coalition[1]:

    - "In the post-pandemic boom experienced in some markets, there are countless examples of subsidized rental units being converted to market-rate units. The current issue of units supported by the Low Income Housing Tax Credits that are legally allowed to convert to market rents after 15 years is happening in markets across the country."
    - "8,420 LIHTC properties accounting for 486,799 LIHTC units will reach Year 30 between 2020 and 2029. This is nearly 25% of all current LIHTC units. For-profit owners have 336,089 (69%) of these units, placing the units at risk after Year 30. At least 81,513 (17%) of these units have nonprofit owners so they will likely continue to operate as "affordable" housing if there is adequate support to make needed repairs for aging units."
    - "Between 2020 and 2029, 42% of the LIHTC units losing their affordability restrictions are in neighborhoods with very low desirability and 26% are in low desirability neighborhoods.
      It is these units that likely face the most significant challenges meeting capital needs for rehabilitation because they can only rely on lower rental income. On the other hand, 10% of the LIHTC units with expiring affordability restrictions are in high desirability neighborhoods and another 5% are in very high desirability neighborhoods. For-profit developers own 36,282 units in high desirability

[1] Aurand, Andrew, et al. "Balancing Priorities: Preservation and Neighborhood Opportunity in the Low Income Housing Tax Credit Program beyond Year 30." Washington, DC: National Low Income Housing Coalition and the Public and Affordable Housing Research Corporation (2018).

neighborhoods and another 16,641 units in very-high desirability neighborhoods. These units owned by for-profit entities are likely at the greatest risk for being repositioned as market- rate housing."

2. <u>Housing Choice Voucher</u>: A recent Philadelphia Inquirer article[2] reports that the loss of affordable rental units supported by Housing Choice Voucher is a real threat in some markets. The article notes:

   - "Dozens of families renting federally subsidized West Philadelphia townhouses must leave by July 2022 after the owner announced plans to end the federal contract and sell the site to cash in on rising property values. Hundreds of similar federal contracts around the city are scheduled to expire within the next few years if they are not renewed."
   - "The owner of the University City Townhomes, gave the required one-year notice to 69 households and the U.S. Department of Housing and Urban Development in July that it would not renew its Section 8 Housing Assistance Payments contract, which expires in July 2022, according to a HUD official."
   - "Nationwide, more than 1.2 million families with low income receive this rent assistance"
   - "Rising property values in the city make offering affordable units less attractive to owners who could capitalize by charging higher market rents or simply selling."

B. Enterprise credit support for community affordable housing land trusts

The Enterprises should develop new capital market approaches supporting the important work of community land trusts, particularly rental land trusts that hold the property in perpetuity to assure affordable housing for extremely and low income families into the future. These trusts are nonprofit corporations that hold land on behalf of a place-based community, while serving as the long-term steward for affordable housing on behalf of that community. These trusts balance the needs of individuals who want security of tenure in occupying affordable housing, with the needs of the surrounding community. This prevents future displacement of vulnerable residents, promotes economic and racial inclusion, and provides a foundation for financial stability and growth. Our end goal is that there will be a significant net growth of affordable housing units.

[2] Bond, Michaelle. "Owner of West Philly Subsidized Townhouses Plans To Sell, Displacing Dozens of Families. It's an Example of the Vulnerability of Affordable Housing.", Philadelphia Inquirer, 18 October 2021.

III. The enterprise plans must build from the enterprises' foundation as a well-established federal credit programs

The Enterprise plans should apply their capital market expertise to provide the financial foundation for long-term, stable affordable rental housing. A recent national study statistically proves "the expected homeless rate in a community begins to quickly increase once median rental costs exceed 30% of median income."[3] This empirical link between homelessness and rental costs should be a reminder of the critical need for renewed Enterprise efforts. A component of these plans should be pilot programs with nonprofit CDC efforts employing rental land trusts that ensure these affordable housing units continue to serve community needs.

In developing their plans, the Enterprises should apply their market leadership and federal credit support to developing new methods to provide long-term financial resources for affordable rental housing. These efforts could include supporting bonds issued by qualifying nonprofit CDCs by:

- Using the Enterprises' GSE cost of funds to make portfolio investments of these bonds including private placements,
- Providing credit support for these bonds similar to Federal Home Loan Bank letters of credit that support housing and economic development bonds and
- Applying lessons learned from Credit Risk Transfers (CRTs) in the residential MBS market to support capital markets addressing long-term rental housing. A recent paper examining Enterprise CRT efforts[4] makes the following points about the broader positive effort of this approach: "The most important benefit of CRTs over equity capital is that it distributes risk more broadly across the financial system. Approximately 40% of CRTs are purchased by global asset managers, 25% by reinsurance companies, 20% by hedge funds, and the remaining 15% by an array of investors including real estate investment trusts, insurance companies, sovereign wealth funds, banks, and credit unions. Distributing credit risk widely across the global financial system significantly reduces the systemic threat posed by GSEs when they retain the risk, as they did prior to the financial crisis and ultimately failed."

IV. The Enterprises should empower proven, effective community leadership

[3] Glynn, Chris, Thomas H. Byrne, and Dennis P. Culhane. "Inflection points in community-level homeless rates." The Annals of Applied Statistics 15.2 (2021): 1037-1053.
[4] Goodman, Laurie, Jim Parrott, Bob Ryan, Mark Zandi. "FHFA's Confused Critique of Fannie and Freddie's Transfer of Credit Risk." Urban Institute (2021).

The Enterprises should immediately consider pilot programs built on strong partnerships with minority-directed community-based organizations that have operated as a nonprofit with at least a five-year track record of efficiently delivering services addressing poverty, health,

education, housing, or employment for an extremely and low income majority minority community. For these plans to succeed, they must be additive to existing efforts. They must bring new voices to Enterprise development of these plans.

These partners would provide market intelligence and program advice built on experience and success. These partners should (1) be located in the extremely and low income majority minority community it serves; (2) have owned or leased property in the subject area for at least five years; (3) demonstrate effective capital deployment; (4) have a majority of those receiving services be minority; (5) have a majority of senior executives be minority; and (6) have individuals that reside in the service community serve on the board.

V. RFI Questions

1. How should measurable goals be selected and set by the Enterprises? For example, is a pursuing a small set of focused goals or a wide portfolio of goals better?
    a. Multi-trillion dollar GSE goals expressed with great fanfare have, in the past, not delivered commensurate results. The most impactful results of refocused GSE efforts may not have the largest dollar volume.
    b. In the area of rental housing efforts, the most important measurable goal is the number of new long-term affordable rental housing for extremely and low income minorities.
    c. The GSE should prioritize units that will be perpetually available for extremely and low income families.
    d. Challenges presented in different markets will necessitate different market-driven strategies and tactics. The needs of communities suffering from long-term income inequality vary a great deal. Redlining, depopulation, gentrification, falling housing values, increasing housing costs are all key variables. A measurable output should be an assessment of how many different markets are being addressed by Enterprise plans.
    e. Because the FHFA is envisioning a three-year timeframe to develop and stand up new efforts to address housing inequity, each year's measurable goals should be designed to foster progression to successful programs at the end of the three-year period. For instance, in the first year, the Enterprises should establish working partnerships with recognized leaders of minority-driven nonprofit CDCs. The number of pilot programs considered and implemented should be measured.

Innovation and pilot programs with experienced new GSE partners should be an important goal of these plans. The potential for replicable programs in some other needy areas of the country should be assessed, not on absolute terms, but on growth potential in successive years.

f. In the third year, the replication of successful pilot programs should be measured.

2. What data, information, or analyses would be helpful for the Enterprises to consider or use to support their plans?
    a. An important measurable goal should be the inclusion of well-established nonprofit community development corporations into new partnerships.
    b. In selecting leading nonprofit minority-led partners, the GSEs should develop an approach designed to bring experienced players into strong working relationships with the GSEs.
    c. Metrics for these new partners should include a measurable track record based successfully managing grants, working with state and local governments (including State HFAs), foundations, and private-sector partners; and the delivery of a range of services to extremely and low income minority clients.
    d. The Enterprises should identify and work with new partners in developing their equitable housing finance plans. The very largest for-profit banks and other well-established users of federal resources must not dominate these efforts.
3. How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions to sustainably address the racial and ethnic homeownership gap?
4. How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions for formerly redlined areas? How should such areas be defined?
5. What other objectives and measurable goals should the Enterprises pursue in their plans?
    a. In the area of rental housing efforts, the most important measurable goal is the number of new long-term perpetual affordable rental housing for extremely and low income minorities.
    b. Homeownership in and of itself should not be the only goal. Enabling the next generation of minority families to build off the stability and wealth accumulation must be an element in these efforts using previous federal programs such as Individual Development Accounts.
6. What constitutes a "meaningful" action, and what kinds of meaningful actions should be taken by the Enterprises under their plans?
    a. "Meaningful" action in the first year should differ from later years.
    b. For those important efforts addressing long-term affordable rental housing, planning and development of programs through outreach and working with new partners should receive substantial focus in the first year. This should then move

   c. to the operation and assessment of new pilot programs and finally replication of successful pilot programs.

7. How can the Enterprises and FHFA ensure that actions taken under the plans provide sustainable housing opportunities and are consistent with safety and soundness?
   a. Identification of new partners in developing pilot programs addressing affordable rental housing should take into account the following factors:
      i. Minority-directed community-based organizations that have operated as a nonprofit with at least a five-year track record of efficiently delivering services addressing poverty, health, education, housing, or employment for an extremely and low income majority minority community.
      ii. Are located in the extremely and low income majority minority community it serves and have owned or leased property in the subject area for at least five years
      iii. Demonstrate effective capital deployment
      iv. Have a majority of those receiving services be extremely and low income minority neighborhood residents.
      v. Have a majority of senior executives and board members be of racial/ethnic minority backgrounds and
      vi. Have minority residents from the community served be on the board
   b. Sustainable Housing Opportunities
      i. Sustainable rental housing can best be addressed through capital market efforts to provide long-term (40 year) funding.
      ii. Federal, state or local credit programs should be brought to bear when possible.
      iii. Utilization of resources from foundations, universities and other major local stakeholders should be encouraged.
      iv. The use of housing trusts is one option to ensure that affordable housing assets continue to serve the identified need over the long term.
   c. Safety and soundness must be an essential consideration in development of these plans. There are several ways to ensure these concerns are built into the plans.
      i. Partners in these efforts should be carefully assessed and selected.
      ii. Risk-sharing mechanisms building off of the credit risk transfers (CRTs) should be explored and encouraged. Just as the GSEs have developed CRTs for traditional enterprise activities, Equity Transfer Instruments should be considered as a means of harnessing the significant interest in ESG bonds and socially-directed investing. A GSE-designed Equity Transfer Instrument would meet the goals of this important effort, be an important risk management tool and act as a catalyst to provide new targeted new financial support.

8. What should FHFA consider in overseeing the Enterprises' plans? Should FHFA provide a rating or some other public assessment? If so, how should the plans be assessed?
    a. There is a danger to simplistic metrics that lead to Enterprise plans that are more focused on a positive rating than positive long-term impact.
    b. A small set of focused goals may not serve the most challenging and unique situations.
    c. A wide portfolio of new approaches developed in part through pilot programs should be the end result.
    d. The public assessments during the first year of plan development should be more subjective and become increasingly objective in later years.
9. How should the plans interact with Duty to Serve, Housing Goals, or other requirements?
    a. The plans should be developed separately from the existing requirements. This will ensure new thinking and approaches.
10. Could special purpose credit programs (as defined in 12 CFR 1002.8) be included in the Enterprises' plans? How should such programs be structured?
    a. Special purpose credit programs should be a critical element of the GSE plans. These programs should be structured in consultation with the partner nonprofits discussed above.
    b. Enterprise partners in programs that involve special purpose credit programs must have a proven track record as nonprofits in raising capital; developing affordable housing, financial and employment counseling; community development; and effective grant management.
    c. The enterprises should target special-purpose credit efforts to programs offered by nonprofit organizations for the benefit of its members or for the benefit of an economically disadvantaged class of persons
11. Are there additional or different required objectives and goals that FHFA should consider for future Enterprise plans?
    a. The GSEs should consider new approaches to provide credit support to provide long-term capital at lower cost than is currently available to the minority-directed nonprofits described in the answer to question 7. This credit support could be similar to the FHLBank letters of Credit support for housing and economic development bonds.
    b. The GSEs should examine other means of providing capital market support that would provide seasoned affordable housing nonprofit CDCs with access to long-term, less expensive capital and expand available financial resources. These efforts could include targeted investment in bonds issued by these CDCs and allow direct placement of these bonds, further lowering all-in cost of funding.
12. What communities and stakeholders should the Enterprises consult with in developing their plans?

a. The GSEs must consult with minority-led nonprofits with a strong record of serving majority minority extremely and low income markets as described in the answer to question 7.

Thank you for the opportunity to comment on this important effort. If I can provide any additional information, please do not hesitate to get in touch. I can be reached via email at lcortes@esperanza.us. I can also be reached through my Washington representative, Peter Knight at peteredwardsknight1@gmail.com.

Sincerely,

Rev Luis Cortés

The Reverend Luis Cortés, Jr.
Founder, President & CEO