LISC
LOCAL INITIATIVES SUPPORT CORPORATION

March 11, 2022

Federal Housing Finance Agency
400 Seventh Street, S.W., Eighth Floor
Washington, D.C. 20219

RE: Strategic Plan 2022-2026, Request for Information

To Whom It May Concern:

The Local Initiatives Support Corporation (LISC) appreciates the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) strategic plan for fiscal years 2022-2026.

Established in 1979, LISC is a national nonprofit housing and community development organization and certified community development financial institution (CDFI) 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 with loans, grants, and equity investments; as well as technical and management assistance. Our organization has a nationwide footprint, with local offices in 38 cities. In 2021, LISC invested over $2 billion in support of affordable housing developments across the county, primarily through the National Equity Fund (NEF), LISC's Low Income Housing Tax Credit (LIHTC) syndication group.

General Comments

LISC believes that FHFA's strategic plan has many important objectives, including a continued organizational focus on affordable housing and mission related activities. In recent months, the FHFA has taken significant actions to promote affordable housing opportunities through their regulator and conservatorship role of the Government Sponsored Entities (GSEs). This includes issuing stronger Affordable Housing Goals, with a focus on ensuring that the GSE's activities reach low- and moderate-income households, minority communities, rural areas, and other underserved populations. Rightfully, the new Affordable Housing Goals include two new goals, which set production targets for single-family home purchase activities in communities of color and low-income neighborhoods. This is in line with FHFA's stated commitment to reduce racial and ethnic disparities in homeownership and wealth through a new Equitable Housing Finance Plan process.

In addition, FHFA has recently rejected Fannie Mae and Freddie Mac's Duty to Serve (DTS) proposed plans for fiscal years 2022-2024. The Agency has directed both Enterprises to submit additional revisions to improve the plans impact on DTS markets, including preservation, rural housing, and manufactured housing. FHFA has also taken steps to financially support affordable rental housing by increasing the GSE's LIHTC equity investments limits by $350 million each, for a total of $1.7 billion. These investments must generally be focused on mission related investment activities in areas with difficulties attracting investors, such as rural housing or affordable rental housing preservation. ***LISC thanks the***

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FHFA for all of these actions since they are critical to addressing our nation's affordable housing crisis.

Specific Comments

Our comments below are focused on the affordable housing objectives in Strategic Goal 2: Foster housing finance markets that promote equitable access to affordable and sustainable housing. We encourage FHFA to build off their recent work to promote affordable housing as the Agency considers activities to further their strategic plan's affordable housing objectives.

Low-Income Housing Tax Credit Equity Investment Caps

In 2017, FHFA allowed the GSEs to reenter the LIHTC market as equity investors, setting a $500 million cap, with $200 million required for mission related activities. This was important since the mission related activities focus helped provided equity for underserved markets. It also broadened the investor market after corporate tax rates were lowered from 35 percent to 21 percent, resulting in lower LIHTC equity pricing. Last year, FHFA raised the investment cap by $350 million for Fannie Mae and Freddie Mac, for a total of $1.7 billion. Any investments above $300 million in a given year are required to be in areas that have been identified by FHFA as markets that have difficulty attracting investors. These investments are designed to preserve affordable housing, support mixed-income housing, provide supportive housing, support rural housing projects, or meet other affordable housing objectives.

LISC recommends that FHFA adjust the current GSE LIHTC cap by at least an inflationary factor going forward and that a portion of this extra investment authority continue to be dedicated to underserved LIHTC markets. These investments should also be eligible for DTS credit. This will allow the GSEs to increase their investment activity for projects difficult to finance and is especially important as Congress has expanded the LIHTC program through the establishment of a 4 percent floor for bond financed deals and provided $2 billion in disaster Housing Credits.

The LIHTC market is also subject to regulatory uncertainty as the federal banking regulators work together to revise the Community Reinvestment Act (CRA) regulations. Previous proposals have indicated an intent to remove the Investment Test, which if ultimately adopted in a new CRA rule could have negative impacts on LIHTC pricing. In addition, Congress is currently considering a further expansion of the LIHTC program, which will increase the need for investors. FHFA should increase the GSE LIHTC cap beyond annual inflationary adjustments if the program receives additional resources from Congress or experiences negative pricing impacts from a new CRA regulation.

Investments in CDFIs

LISC believes the types of transactions that will expand housing choice and opportunity for underserved areas and low-income households are often smaller, more labor-intensive, and have different risk profiles than is typical in conventional mortgage underwriting. CDFIs have worked in underserved communities for many years and have first-hand knowledge of local markets and partners. We are adept at mitigating the risks that are often inherent in investing in them. With our strong loan portfolios, CDFIs are natural partners for leveraging the GSEs liquidity and expanding responsible investment in these markets.

Beyond working with CDFIs through Duty to Serve loan purchase and technical assistance activities, LISC recommends FHFA determine whether the GSEs can make equity or equity like investments in CDFIs through their DTS authority. Equity capital is critically important for CDFIs to be able to tackle some of the most challenging affordable housing problems in our nation. A plain reading of the authorizing statute for DTS indicates the GSEs have such authority and LISC encourages FHFA release to the public a legal determination on this issue. LISC recommends that the GSEs update their DTS plans to include CDFI investment activities if FHFA determines it's eligible.

Affordable Housing Program Revolving Loan Fund Regulation

In 2006, the Federal Home Loan Banks were provided authority in the Affordable Housing Program (AHP) regulations to provide AHP awards for revolving loan funds. The revolving loan fund provisions were designed to support distinct projects in specific locations, or for pipelines of expected projects meeting specific criteria. In 2018, FHFA revised the AHP regulations and stated in the proposed rule that it may undertake separate rulemaking to modernize the revolving loan fund provisions since very few FHLBs have provided AHP awards for this purpose.[1]

The AHP is designed from a regulatory and administrative perspective to fund qualified affordable housing projects, either owner-occupied or rental housing. The use of AHP subsidy for affordable housing lending requires a different approach, both from the regulatory and subregulatory requirements. Applicants requesting to utilize AHP resources for revolving loan fund activities are often disadvantaged since both the regulations and application review requirements are designed to review and rate the need for project-level subsidy instead of lending capital. In addition, it's our understanding that only one of the FHLBs allows the use of AHP resources for this use since many FHLBs are unclear on how to administer a competition for lending purposes. Many FHLBs are also probably reluctant to fund these activities due to concern on how FHFA examiners, who also have limited background in the use of resources for these activities, will review their performance.

LISC supports increased use of AHP funds for revolving loan fund activity and encourages FHFA to revise the regulations to better support CDFI affordable housing lending. Creating opportunities for AHP resources to be utilized for affordable housing lending opportunities will allow the resources to be more responsive to local market needs and achieve higher leverage and impact.

Equitable Housing Plans & Racial Equity

In September, 2021 FHFA announced that Fannie Mae and Freddie Mac would submit Equitable Housing Plans identifying and addressing barriers to housing opportunities, including their goals and plans for advancing equity in housing finance. These three year plans would be accompanied by annual progress reports. This new requirement is intended to reduce racial and ethnic disparities in homeownership and was released after FHFA and the U.S. Department of Housing and Urban Development signed a memorandum of understanding regarding fair housing and fair lending coordination.

LISC supports FHFA's Equitable Housing Plan process and will provide feedback to the Agency as draft plans are released for comment. In addition, we encourage the GSEs to address racial equity issues through all of their work, including Duty to Serve. Many, if not all of the DTS activities, disproportionately impact racial and ethnic minority households. While the authorizing statute for DTS does not require FHFA or the GSEs to address such issues, LISC encourages FHFA to explicitly incorporate racial equity components in all relevant DTS activities and reporting. This should include providing the public with disaggregated reporting and supporting research that shows how the DTS activity affected racial and ethnic minorities.

Duty to Serve

LISC strongly supports the efforts of FHFA and the GSEs to support underserved markets through the Duty to Serve regulation. We applaud the thoughtful and creative work which has been done to date, particularly with affordable housing preservation programs.

[1] https://www.govinfo.gov/content/pkg/FR-2018-03-14/pdf/2018-04745.pdf

LISC believes that the Duty to Serve effort should focus primarily on supporting and expanding transactions that improve affordable housing opportunities in underserved geographies and for low-income populations. The efforts of the GSEs pursuant to their Duty to Serve should be evaluated by the extent to which they facilitate *more* transactions to create or preserve these types of housing opportunities, particularly for households at the lowest end of the income spectrum. This is why LISC was pleased that FHFA rejected the previous DTS plan submission since they provided *less* support than the previous three year cycle.

LISC thanks FHFA for requesting stronger DTS plans from the GSEs for 2022-2024. We encourage FHFA to work with the GSEs on setting activity level goals that are aggressive and achievable based on market opportunities and to consider previous feedback provided by LISC and other stakeholders, such as the Underserved Mortgage Market Coalition.[2]

We thank the FHFA for the opportunity to provide suggestions on the Agency's strategic plan for fiscal years 2022-2026. Please contact Mark Kudlowitz (mkudlowitz@lisc.org), LISC Senior Policy Director, if you need additional clarification or follow up on any of the recommendations provided in this letter.

Sincerely,

Matt Josephs
Senior Vice President for Policy

[2] https://www.lisc.org/media/filer_public/57/36/5736bac2-f8a8-4a3d-8ff6-672b5e65d955/071621_policy_comments_duty_to_serve.pdf