HAC
Housing Assistance Council
We help build homes and communities across rural America.

December 5, 2022

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street SW, 10th Floor
Washington, D.C. 20219

RE: Request For Input On Fannie Mae And Freddie Mac 2022 Duty To Serve Plan Modifications

Dear Director Thompson,

The Housing Assistance Council (HAC) appreciates the opportunity to comment on the 2022 Duty to Serve Plan modifications proposed by Fannie Mae and Freddie Mac (the Enterprises). HAC appreciates the work of the Federal Housing Finance Agency (FHFA) on Duty to Serve in recent months. We were glad to see the FHFA send the Enterprises back to the drawing board to revise their Duty to Serve plans earlier this year. The true, yet-untapped potential of Duty to Serve requires the Enterprises to set ambitious goals, and the new versions of the plans showed important improvements.

HAC helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, D.C. and working in all 50 states, HAC is a national nonprofit and a certified community development financial institution (CDFI). We are dedicated to helping local rural organizations build affordable homes and vibrant communities. We provide below-market financing, technical assistance, training, and information services. HAC also serves as rural America's "Information Backbone" with leading public and private sector institutions relying on HAC's independent, non-partisan research and analysis to shape policy. Thus, HAC is uniquely positioned to provide comments on the Enterprises' Plan modifications.

We would like to focus our comments on two proposed modifications: Freddie Mac's proposal to remove their U.S. Department of Agriculture (USDA) Section 515 loan purchase goals, which HAC opposes, and Fannie

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Mae's proposal to add equity investments in Native CDFIs to their goals, which HAC supports.

USDA Section 515 Loan Purchases

Freddie Mac proposes a Plan modification to remove their USDA Section 515 loan purchase goals for 2022-2024. HAC strongly opposes this change. Freddie's Plan already had extremely low purchase goals for Section 515 properties (one loan in 2022, two loans in 2023, and four loans in 2024). This modification, should it be approved, would be at odds with the rural rental preservation objective in Duty to Serve, especially after years of work was invested in reaching a subordination agreement with USDA. Furthermore, both Enterprises previously attempted to remove their Section 515 goals from their Plans in 2019 and those modifications were rightly rejected by the FHFA at the time.

As their justification for this modification, Freddie states that the debt financing preservation needs of the Section 515 portfolio are being adequately served by USDA's Section 538 loan guarantee program. This is demonstrably false. The Section 538 program is consistently oversubscribed, and a much greater volume exists in the preservation pipeline than can be preserved through the Section 538 program alone. In FY22 there were only 72 total Section 538 loans made, and there have only been a total of 1,096 loans made in the Section 538 program's entire history. Indicative of the additional need in this area, while the program was funded at $250 million in FY22, the White House budget requested $400 million for Section 538 in FY23.[1] It is unlikely, however, that that level of increase will be included in the final appropriations agreement.

More broadly, over 900 Section 515 properties and 21,000 units were lost from the program between 2016 and 2021,[2] further demonstrating that the preservation needs of the portfolio are not being met by current funding sources.

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[1] Office of Management and Budget, "Department of Agriculture," Appendix: Budget of the U.S. Government, Fiscal Year 2023 (Washington, DC: U.S. Government Publishing Office, 2022), p. 131, https://www.whitehouse.gov/wp-content/uploads/2022/03/agr_fy2023.pdf.
[2] Housing Assistance Council, "Rural America is Losing Affordable Rental Housing at an Alarming Rate: An Update on Maturing Mortgages in USDA's Section 515 Rural Rental Housing Program," 2022, https://ruralhome.org/update-maturing-mortgages-usda-section-515-rural-rental-housing-program/.

Freddie's proposal to remove their Section 515 purchase goals, especially without offering a replacement goal (such as making equity investments in CDFIs engaged in Section 515 preservation) should be rejected. In its place HAC recommends Freddie commit to an increase in the exceedingly low goal of two loans in 2023.

Equity Investments in Native CDFIs

Fannie Mae proposes a Plan modification to explore the feasibility of equity investments in Native CDFIs. HAC is very pleased to see this proposed addition, and it is in line with the recommendations we offered during the FHFA's Duty to Serve Native American Housing Listening Session in July 2022.[3] The addition of Native CDFIs shows that Fannie is being responsive to the listening session comments and recognizes the unique role that Native CDFIs play in their communities.

In light of this inclusion (and Fannie's inclusion of equity investments for CDFIs engaged in rural single-family markets in their 2022-2024 plan overall), we continue to encourage the FHFA to take this opportunity to approve the use of the equity investment tool.

Permitting targeted equity investments in CDFIs is, in HAC's opinion, the single most impactful action that the FHFA could currently take to improve Duty to Serve outcomes. It would allow community-based nonprofit lenders to bring the power of the Enterprises to markets in which little to no mortgage activity currently occurs, growing new markets for future activity by the Enterprises.

More broadly, targeted equity investments in CDFIs that are already lending for rural housing, manufactured housing, and affordable housing preservation would significantly improve liquidity and the distribution of investment capital for all the Duty to Serve underserved markets. For example, targeted equity investments from the Enterprises could have a significant impact in reversing USDA's Section 515 preservation crisis by providing the capital for CDFIs to make preservation loans. CDFIs have been working in these markets for decades and have the relationships and track record to successfully lend and develop the products and services needed to serve the housing needs of underserved communities. These capable

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[3] Dave Castillo and David Lipsetz, Housing Assistance Council, to Sandra Thompson, Federal Housing Finance Agency, Washington, DC, July 13, 2022, https://ruralhome.org/hacs-comments-on-duty-to-serve-for-native-american-communities/.

organizations just need additional access to capital and liquidity to turn mortgage deserts into fertile markets for Enterprise activity.

In the statute establishing Duty to Serve, Congress set out "investments" as one of four explicit criteria that FHFA must use in evaluating the Enterprises' Duty to Serve performance.[4] Because this statutory change applies only to very limited equity investments that are part of the Enterprises' overall strategy to reach Duty to Serve's underserved markets, allowing this controlled investment would unlock massive potential for improved access to capital in the underserved markets without any significant increase in risk. It is time for the FHFA's previous decision on targeted equity investments to be reassessed and we encourage the FHFA leadership team to ask the FHFA general counsel to do so.

We would also encourage both Enterprises to consider the other Native American housing suggestions that HAC submitted during the July 2022 listening session, including loan purchase goals, for future modifications.

Thank you for your time and consideration of these comments. We greatly value our partnership and look forward to continuing to work with FHFA and the Enterprises to address these important challenges.

Sincerely,

David Lipsetz

David Lipsetz
President & CEO

[4] Housing and Economic Recovery Act of 2008, 12 U.S.C. § 4565(d)(2)(D) (2020).