Rebuilding Neighborhoods and Preserving Diversity Through Affordable Housing
MANNA®

October 7, 2014

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA65
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street, SW
Washington DC 20024

Dear Mr. Pollard:

Manna, Inc. is a nonprofit housing developer that has rehabilitated and built more than 1,000 affordable homeowner and rental units in Washington DC since 1982. The affordable housing goal rule is vitally important to Manna. When Fannie Mae and Freddie Mac push the banks to finance more mortgages in modest income neighborhoods, they improve the chances of successfully revitalizing neighborhoods and building homeowner wealth. While there are some promising signs in your proposal, Manna does not think it goes far enough in pushing Fannie Mae and Freddie Mac to be market leaders.

Single Family Goals

In particular, the proposed low-income home purchase goal remains below market percentages, removing the incentive to create the programs, tools, and industry connections which would improve outreach to credit and income ready low-income households. Manna and other practitioners who support lower income home buyers know that the pool of prospective mortgage eligible purchasers exceeds the current market levels but the pool of purchasers remains depressed due to the lack of effort on the part of lending community to reach and work with these households. Increasing lender efforts requires more investments by the Government Sponsored Enterprises (GSEs) and their lender partners in underwriting tools, training of staff, and the willingness to partner with community-based programs providing down payment and counseling resources. Lenders also need to accept lower rates of return (but still profitable rates of return) due to smaller loans and longer processing times. Lenders will only invest in the tools and loan programs supported by the GSEs, and will only accept the lower returns of smaller and more time intensive loans if the GSEs create financial incentives driven by their own goals.

The FHFA should not reward the behavior of the recent past, where lenders eliminated community outreach and discouraged loans that represent any increased level of effort, by using the market percentages of that period as a benchmark. The affordable housing goals reflect the public’s expectation of a rate of return on its investment and guarantees of the mortgage industry. The affordable housing goals also create an economic multiplier effect of expanding mortgage lending options to the households who have suffered the most from Great Recession, caused in large part by the financial industry. Without support for the broad base of low wealth, good credit, and modest but adequate income households, the economy will continue to suffer from the drag of underwater mortgages and below trend household formation. GSE affordable housing goals promote safe and sound lending to modest income households, will boost the economy with increases in homeownership, and will avoid the mistakes of the past when un-regulated lending contributed significantly to the financial crisis.[1]

The proposal that 23 percent of the purchases of the GSEs be for low-income borrowers is too low in relation to the market. According to Appendix Table 6, the primary market (lending institutions) issued between 26 and 27 percent of their mortgages to low-income borrowers from 2010 through 2012. Yet, the FHFA had a low-income purchase goal of 23 percent for the GSEs in 2012 and 2013 and proposes to keep this goal for the years 2015 through 2017. As a result of the modest goal setting, GSE performance was below the primary market in terms of the percentage of mortgages financed for low-income borrowers from 2012 and 2013. A modest goal setting for 2015 through 2017 will ensure that the GSEs will continue to trail the primary market instead of leading the primary market in the future.

Manna understands that the FHFA forecasts a declining share of low-income mortgages financed by the primary market in future years, though disagrees with that assumption based on our knowledge of the underserved segments who could and would become successful homeowners with appropriate support from the lending industry. However, a higher goal of 25 percent is still within the range of FHFA's forecasts and is certainly in line with the primary market in the last several years. If the FHFA is intent on making the GSEs market leaders, FHFA must raise the low-income home purchase goal.

The feasibility of raising the low-income home purchase goal is further buttressed by the FHFA's proposals on other goals. For example, the very low-income goal proposal of 7 percent for 2015 through 2017 is consistent with primary market performance of around 7 to 8 percent. Likewise, the FHFA proposes to increase both the low-income areas purchase goal and the refinance goal to make those goals more in line with primary market performance. The FHFA must do the same with the low-income home purchase goal.

In response to the FHFA's questions as to whether the agency should use the benchmark and retrospective approach, a benchmark approach only, or a retrospective approach only, Manna urges the FHFA to maintain the current approach. Given the inherent difficulties of forecasting, Manna agrees with the FHFA that relying just on the benchmark approach would result in conservative goals that are too low. Likewise, using only the retrospective approach would make

[1] Data from the Office of the Comptroller of the Currency in its *Mortgage Metrics* reports consistently showed that GSE-supported loans had lower default and foreclosure rates than loans in private mortgage-backed securities. In addition, extensive research by Federal Reserve economists revealed that loans issued by banks covered by the Community Reinvestment Act (CRA) performed significantly better than loans issued by independent mortgage companies. In its proposed affordable housing goals, the FHFA mandates that GSE financed loans adhere to the qualified mortgage standards promulgated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

planning difficult for the GSEs because they would need to wait until almost the end of the year for a determination of whether their performance met the retrospective (market-based goal). The current combination of the benchmark and retrospective approaches avoids the worst disadvantages of using just one approach. However, Manna urges more weight and consideration to the past performance of the primary market than the FHFA currently uses, particularly in relation to the low-income home purchase goal.

Assessing GSE Performance at Metro, Rural, and Neighborhood Level

While national goals are mandated by statute, Manna Inc. does not find measuring performance on a national level to be sufficient in ensuring that the GSEs are meeting their affirmative obligation to serve low- and moderate-income households and families. Performance in serving these families and households can differ greatly by metropolitan area and rural counties.[2] At the very least, the FHFA should calculate GSE performance for metropolitan areas and rural counties (aggregate rural counties for each state so the FHFA has 50 "rural" areas calculated). For metropolitan areas and rural counties in which the GSEs significantly lag the primary market, the FHFA should encourage the GSEs to improve and to work with lenders and community-based institutions to improve. This exercise would not entail setting goals for metro or rural areas, but would use data on recent past performance to identify metro and rural areas where the GSEs should improve their performance.

Within metropolitan areas, there are underserved neighborhoods of particular interest to community-based nonprofit organizations and public agencies. Manna Inc., for example, is focusing its efforts on Wards 7 and 8 in the District of Columbia east of the Anacostia River, which is a predominantly minority and lower income area. If any nonprofit organization or lending institution presents data to the FHFA showing GSE under-performance in underserved areas, the FHFA should consider this evidence, verify it with their own data analysis, and encourage the GSEs to step up their performance.

Multifamily Goals

Manna, Inc. is pleased that the FHFA is proposing small multifamily goals for the first time. Manna recently entered the small multifamily rental market because the cost of housing in the District of Columbia is increasing significantly. Given the market in the District, rental housing for lower income families is needed. More emphasis on GSE financing small multifamily units should help finance the units Manna is interested in developing.

Historically and in the proposed low-income multifamily goal setting, FHFA has been too conservative. In 2013 and 2012, Fannie Mae exceeded the low-income multifamily goal by 61,597 and 90,924 units, respectively. Freddie Mac exceeded its goal by 40,057 units in 2013

[2] For an example of calculating GSE performance at the metropolitan level, see Patrick Boxall and Joshua B. Silver, *Performance of the GSEs at the Metropolitan Level* in Cityscape: A Journal of Policy Development and Research, Fannie Mae and Freddie Mac in the Housing Finance System: I, Volume 5, Number 3, 2001, published by Office of Policy Development and Research, U.S. Department of Housing and Urban Development.

and 73,529 units in 2012. FHFA suggests that the GSE market share will diminish in future years and is thus lowering the GSE multifamily goals. But the past performance does not seem to justify diminished goals. In Fannie Mae's case, the proposed goal of 250,000 units for low-income multifamily housing is 15,000 units lower than the 2013 goal. Despite the forecast of lower GSE market share, past GSE performance of substantially exceeding goals suggests that Fannie's goal for 2015 through 2017 should be above the 265,000 goal for 2013, not below it. Likewise, Freddie Mac's future goal should be higher than its 2013 goal, not below it.

In contrast to the low-income multifamily goal, Manna appreciates that the FHFA is proposal goals for the low-income small multifamily goal that is higher than recent GSE performance. For example, FHFA calculates that Fannie Mae financed 13,827 low-income small multifamily units in 2013 and is proposing goals of 20,000, 25,000, and 30,000 for 2015, 2016, and 2017, respectively. This would push the GSEs to increase their financing of small multifamily units for low-income households. The same approach should be taken with other multifamily goals.

Finally, Manna Inc. recommends that the FHFA work with the Consumer Financial Protection Bureau (CFPB) to improve the multifamily Home Mortgage Disclosure Act (HMDA) data. The CFPB is currently involved in a rulemaking to improve HMDA data and has proposed improvements to the multifamily data. In its proposed affordable housing goals rule, the FHFA states that multifamily goal setting is difficult, in part, due to limitations on data for the primary market in multifamily lending. Improving the multifamily HMDA data promises to significantly increase the information on multifamily lending since HMDA captures most of the lending activity in the nation, at least for single family lending. FHFA and CFPB should work together to assess how much of the multifamily lending activity HMDA covers. If HMDA does not cover the great majority of multifamily lending activity, the CFPB should increase HMDA's coverage of multifamily lenders.

In Conclusion

For too many underserved communities, the activities of Fannie Mae and Freddie Mac remain too opaque and hard to understand, but remain the primary outlet for loans in lower income communities. The GSEs profoundly impact the availability of credit in all communities, including traditionally underserved communities, through their provision of automated underwriting, property and borrower underwriting guidelines, and loan program features. There are many demands on the resources of the GSEs and the lending community, and the affordable housing goals provide the main incentive for reaching harder-to-serve communities and borrowers.

The FHFA must implement robust affordable housing goals so that the GSEs are market leaders, not followers. Robust goals would also encourage the GSEs to do the hard work of analyzing, pricing and designing loan programs for sustainable lending in lower income markets, which supports lenders in making their own investments. In addition, the FHFA should assess performance on a metro and rural level. While these assessments would not involve goal setting, they would provide insights and lead to suggestions for which metro and rural areas the GSEs should improve their performance. Finally, the FHFA should also consider community organizations' analyses of GSE performance on a neighborhood level and explore with the GSEs if there are partnering opportunities with the primary market or nonprofit neighborhood-based organizations to address shortcomings on a neighborhood level.

Thank you for the opportunity to comment on this important matter.

Sincerely,

Josh Silver

Josh Silver
Development Manger
Manna