October 24, 2014

Mr. Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
Constitution Center
Eight Floor
400 Seventh Street SW
Washington, DC 20024

Attention: Comments/RIN 2590-AA65
The 2015-2017 Enterprise Housing Goals – Proposed Rule

Dear Mr. Pollard:

On behalf of NeighborWorks® America (also known as the Neighborhood Reinvestment Corporation) I want to thank the FHFA for the opportunity to provide comments regarding the Proposed Rule on the 2015-2017 Enterprise Housing Goals. These comments have not been submitted to or approved by NeighborWorks America's board. These comments reflect the view of NeighborWorks America management and do not necessarily represent the views of its board members, either collectively or as individuals. These comments have been formed in consultation with a number of NeighborWorks America's more than 245 local and regional nonprofit-affiliated NeighborWorks organizations, collectively known as the NeighborWorks Network.

The overarching theme of this comment letter is that post housing crisis, there remains an incredible lack of access to credit for home purchases for affordable single family homes and an extraordinary need for affordable multi-family rental units. To the extent that the proposed Affordable Housing Goals increase access to credit and increase the supply and/or affordability of multi-family homes, they are to be commended. NeighborWorks America supports the Agency in setting strong and measurable housing goals with an eye towards the Enterprises reaching those goals through partnership, programs and products that are innovative, flexible and sustainable. NeighborWorks America's Network organizations (NWOs) provide homeownership opportunities to thousands of Americans every year, helping them achieve the American Dream that, despite the crisis, they are still seeking. In fact, a NeighborWorks America survey just a year ago found that 88 percent of consumers ranked owning a home as an important part of the American Dream with 61 percent who said it is either the most important part or a very important part of that Dream. NeighborWorks organizations help individuals assess what they can afford, identify the right properties, and obtain sustainable mortgages. They provide education and counseling, financial assistance through loans and grants, and sell homes they develop.

In FY 2013, over 95% of Network organizations supported homeownership. In that same year, NWOs assisted **21,000** families and individuals to purchase a home, counseled and educated **109,400** families and individuals on housing, and preserved homeownership for almost **16,200** families and individuals.

Our Network's borrowers are diverse. A substantial portion of the homeowners created by NeighborWorks organizations in FY 2013 were minorities. For instance, 20% of NeighborWorks organization new homeowners were African American although African Americas made up only 13% of the US population in 2013. Twenty percent of new homeowners created by NeighborWorks organizations were Latino, although Latinos make up only 17% of the US population. In addition, 5% of NeighborWorks organization new homeowners were Asian and 1% were Native American.

Our Network's borrowers use a variety of sources of financing methods – a good number of which could be eligible for purchase in the secondary market if support and flexibility are present. Of the new homebuyers who received financing assistance from a NeighborWorks organization in FY 2013, 88% reported receiving a first mortgage from a bank, while almost 5% reported receiving a first mortgages from CDBG or HOME or a local government source, and close to 3% reported a USDA first mortgage. Of those who received down payment assistance to help with a home purchase, 66% reported receiving that assistance through CDBG, HOME or a local government source, while 33% received the down payment assistance from a bank.

NeighborWorks organizations and their borrowers are operating in a difficult environment for buyers and renters. There is a litany of statistics that document the tightness of credit in the current environment that has a particularly strong effect on affordable lending/housing and a disproportionate impact on borrowers of color. One snapshot, according to the Urban Institute, is that in the years 2012-2013, the percent of 30-year full documentation amortizing Enterprise-purchased loans made to borrowers with a FICO score under 700 stood at only 7 %. Pre-crisis, in the years 2000-2004, loans to borrowers with FICO's under 700 made up 36% of the total. High credit score requirements coupled with higher down payment amounts, expensive loan level price adjustments, and higher Private Mortgage Insurance premiums have limited the affordability of the loans the Enterprises can purchase from our Network's borrowers.

On the Multifamily side, demand for rental housing has grown drastically in the past six years and is projected to continue to grow as younger people form their own households and many potential homeowners continue to be priced out of the market. The demand is particularly strong among lower income households. According to the Harvard Joint Center for Housing Studies' 2014 State of the Nation's Housing report, renter growth in 2013 remained well above the 400,000 annual average of the last several decades. Households earning under $15,000 annually represented more than a quarter of renter growth, and those with incomes of $15,000–$29,999 accounted for nearly 30 percent of renter growth. In this environment, rents are continuing to rise. Rising rents pose particular challenges for lower income families and individuals, who have an especially difficult time finding affordable rental housing. There are currently 11.8 million low-income renters with an income that is at or below 30 percent of their area's median, yet there are only 6.9 million affordable rental units on the market, according to the Harvard Joint Center for Housing Studies' 2014 State of the Nation's Housing report.

With these proposed Enterprise housing goals, the Agency has the opportunity to change that direction. NeighborWorks America strongly urges the FHFA to return regulatory focus to mission-oriented production of affordable housing. Through the goals and other means, the agency can encourage sensible, responsible, effective and innovative financing to provide access to credit to underserved borrowers and renters. NeighborWorks and our network organizations stand ready to partner with the Enterprises to bring our expertise and commitment to bear so that together we can help build, buy and preserve single and multi-family affordable housing.

There are a number of creative opportunities where we could partner that would further the success of the statutory goals of the Enterprises. For example, the Enterprises could pilot a new product with features similar to the Federal Housing Administration's HAWK (Homeowners Armed with Knowledge) for New Homebuyers proposal. The Enterprises could create a financing product that includes a pricing incentive (for example, a discounted guarantee fee) for borrowers who satisfactorily complete pre-purchase homeownership education and counseling at HUD certified counseling agency. Borrowers could yield additional incentives if they committed to post-purchase counseling, as well. Bonus points could be awarded under the goals that would incent this kind of proven, safe and sustainable lending.

Other opportunities include encouraging land trust financing, allotting bonus points for manufactured housing on permanent foundations that are recorded as real estate, or finding a way to refinance and rehabilitate multifamily properties like the Rural Housing Services' Section 515 portfolio that uniquely serves rural areas around the nation.

Housing Goal Compliance

The Agency seeks comment on how to determine compliance with single-family and multi-family housing goals through the 2015-2017 time frame. Under the current framework, FHFA determines compliance by measuring against the "benchmark" level set in the previous affordable housing goals or under a backward looking market-level test based on HMDA data. NeighborWorks America views this current framework as a reasonable approach going forward as opposed to ensuring compliance by using either one or the other of the two tests.

Single Family Goal Levels

Continuing the two-part housing goal compliance framework for single-family housing seems to have the balance "just right." It could, in fact, allow FHFA to *stretch* the goals so that the Enterprises can <u>lead</u> the primary market because of the safety valve ability to adjust the goals with a backward look should market conditions change dramatically. On the other hand, if there is no stretch goal, should the Enterprises continuously exceed their goals by a large margin, FHFA could retain the right to increase the goals mid-term as it would seem to indicate that the goals were set too low and should be adjusted.

FHFA should utilize the goals to work with the Enterprises to build in flexibility for affordable products and underwriting. NeighborWorks organizations assist borrowers through counseling and down payment assistance or through buying properties to rehab and later sell in their neighborhoods. NeighborWorks organizations' on-the-ground experience is that inflexible underwriting becomes a barrier for their borrowers, so we recommend allowing variable or seasonal income to be used to qualify (in some situations) could be appropriate. Our view, validated by a recent peer-reviewed study by Neil Mayer and Associates and Experian, is that NeighborWorks Network organizations' borrowers represent sustainable mortgages that the secondary market can and should safely finance.

Over the years, NeighborWorks America has supported counseling and the research to prove its efficacy. In 2013, Neil Mayer and Associates and Experian released the aforementioned study that found that homebuyers who receive NeighborWorks pre-purchase housing counseling and education are nearly one-third less likely to fall behind 90 days or more on their mortgages within two years of origination, than consumers who don't receive NeighborWorks pre-purchase counseling and education. The loans studied were originated in the years 2007, 2008 and 2009, representing books of business from pre-crisis and during the crisis. The study is available here: http://www.neighborworks.org/Media-Center/Research.aspx?cat=Homeownership

Given the growing evidence, the agency, through the goals and other methods, should recognize and support pre-and post-purchase homeownership education and counseling by: encouraging a product to financially incent borrowers and lenders to counseling; encouraging the requirement for first-time homebuyers to complete counseling, especially if financing with other than a 30-year fixed rate mortgage; encouraging each Enterprise to track loan performance of counseling borrowers; and, encouraging the Enterprises to work with and support the homeownership education and counseling industry to design and implement these and other recommendations to encourage borrowers to obtain homeownership education and counseling before purchasing a home.

If the goals are "stretch" goals, they can be used to encourage the Enterprises to build more partnerships with mission-oriented lenders, non-profits, CDFIs, manufactured housing resident-owned communities and others who build, provide, finance or preserve affordable housing in rural, suburban, ex-urban and metropolitan centers.

Network organization serving rural areas and high cost areas sometimes find it harder to find qualified people in their areas due to the income level restrictions. Exploring flexibility (to go up to 120% AMI, for example) in the goals for income targets in rural areas and high cost markets would be helpful to assist with home purchasers in those harder to serve markets. Another alternative would be to allow the use of state-wide median incomes for qualifying for the goals in rural areas where appropriate.

Multi Family Goal Levels

Over the past few years, the Enterprises have successfully exceeded their multifamily goals while they profited from the playing a leading role in providing credit for multifamily lending during the housing crisis. Multifamily housing loans performed well during the financial crisis, and are continuing to perform well. In a January 2009 policy brief on meeting multifamily housing needs, the Harvard Joint Center for Housing studies noted that delinquency rates in 2008 for commercial mortgage backed securities (CMBS) 30 plus day delinquency rates rose to 0.53 percent. However, those rates were still well below a 1.7 percent delinquency rate high reached in 2003. Looking at affordable multifamily, a report released in April 2014 by Moody's Investors Service found that state housing finance agency multifamily bond programs continued to perform well throughout the financial crisis, with delinquency rates remaining around 0.5 percent between 2011 and 2013. Understanding that multifamily lending represents relatively safe and sound lending, the Agency could adjust the multifamily goals upwards in order to stretch the Enterprises to do more for this market segment and borrowers who are in need of affordable rental housing.

There is also a need for more flexible underwriting guidelines and terms with regard to interest rates, loan-to-value ratios, and debt-coverage ratios. The goals should encourage such flexibility, especially when working with mission-oriented non-profits, such as our Network organizations that are preserving or developing affordable rental housing. FHFA, through the goals, can help the Enterprises to support construction, rehabilitation or financing through innovative, creative products and lines of credit. Further work can be done to support Low Income Housing Tax Credit investment properties, particularly those with Year 15 issues, to ensure they continue to be managed by mission-minded organizations with sufficient capital, expertise and dedication to maintain the properties as affordable for the long-term.

The New Proposed Small Multifamily Properties Sub-Goal
NeighborWorks applauds the creation of the small multifamily sub-goals for the Enterprises. As it stands today, the Enterprises are not providing competitive pricing nor are their underwriting parameters designed to serve and incent this segment of the multifamily business. Flexibility, quicker processes, better debt-coverage ratios all would help to provide additional liquidity and long-term fixed rate financing for this more difficult to finance band of affordable rental housing.

Section VII. Reporting Requirements for Single-Family Rental Units
NeighborWorks supports the proposal to require the Enterprises to report more on their purchases of single-family rental properties. One-to-four unit rental properties provide a substantial amount of rental housing for the nation and provide critical affordable housing units for tenants. The need for higher down payments along with often higher interest rates on the loans, however, has impacted affordability. FHFA's proposal should provide critical information to help understand the role of the Enterprises in financing these properties as well as determining how they could provide additional responsible support to maintain this affordable housing resource.

Section IX. Blanket Loans on Manufactured Housing Parks
Manufactured housing in an important source of housing in rural, suburban and ex-urban areas alike. Requiring the Enterprises to serve the manufactured housing market should not be relegated solely to a Duty to Serve requirement, but should be, as this proposed regulation envisions, a part of the overall affordable housing goals of the Enterprises. In order to increase affordable financing options, NeighborWorks America supports the concept that some manufactured housing parks should count under the multifamily housing goals as proposed by FHFA, subject to conditions that provide adequate tenant protection. For example, Resident Owned Communities or other properties owned by units of government, nonprofits or cooperatively owned groups, should receive goals credit. Goal credit could be considered for investor-owned groups if, in addition to secure tenure and other consumer protections, the lots rents are affordable to low and very-low income residents.

Closing
NeighborWorks America applauds the housing goals rulemaking and appreciates the opportunity to comment. Updating the goals is the right step to providing a continued secondary financing outlet that can provide affordable lending in a safe and sustainable way for the entire market. We would like to close by encouraging the FHFA to reissue and finalize a strong Duty to Serve rule (for affordable housing preservation, rural areas and manufactured housing) and to support

affordable housing by lifting the ban on Enterprise contributions to the Housing Trust Fund and Capital Magnet Fund. While the Enterprises' housing goals are a critical tool in the toolbox for affordable housing, acting on these other issues within your purview will add strength and depth to the tools we all have for providing affordable, sustainable housing for Americans across the country.

Please feel free to contact me, or Kirsten Johnson-Obey, SVP of Public Policy and Legislative Affairs (at 202-760-4139 or kjohnson-obey@nw.org) for any clarification of these comments.

Sincerely,

Charles Wehrwein
Acting President & Chief Executive Officer
NeighborWorks America