



October 28, 2014

Federal Housing Finance Agency
Division of Housing Mission and Goals
400 7th Street, SW
Washington, DC 20024

Re: Proposed 2015-2017 Housing Goals for Fannie Mae and Freddie Mac

To Whom It May Concern:

On behalf of Enterprise Community Partners, thank you for the opportunity to comment on the Federal Housing Finance Agency's proposed housing goals for Fannie Mae and Freddie Mac for 2015-2017.

Enterprise works with partners nationwide to build opportunity for low- and moderate-income families, starting with a safe and affordable place to call home. Over the past 31 years, Enterprise has helped build or preserve more than 320,000 affordable homes across all 50 states, invested \$16 billion into communities and touched millions of lives.

We are a family of companies comprised of Enterprise Community Partners (the parent nonprofit) and its related organizations: Enterprise Community Investment (a financial services company), Enterprise Community Asset Management (a residential asset management firm), Enterprise Community Loan Fund (a registered Community Development Financial Institution), Enterprise Homes (a housing developer) and Bellwether-Enterprise Real Estate Capital (a multifamily and commercial mortgage originator). Bellwether-Enterprise is an FHA Multifamily Accelerated Processing (MAP) lender and Ginnie Mae issuer, a Fannie Mae Special Affordable and Workforce Housing Lender, a Freddie Mac Program Plus Seller Servicer and Targeted Affordable Housing lender and a U.S. Department of Agriculture Section 538 lender.

For more than three decades, Fannie Mae and Freddie Mac (the GSEs) have been important partners in Enterprise's work. The GSE multifamily businesses are particularly important sources of capital for affordable housing and essential components of a liquid, stable and affordable U.S. rental market. For this reason, we appreciate FHFA's new strategic priority of supporting "multifamily housing needs with a focus on the affordable and underserved segments of the market," as laid out in the agency's latest strategic plan.

FHFA's commitment to affordable rental housing comes at a critical moment. In communities across the country, rents are rising, wages are stagnating and working families are finding it more and more difficult to find a quality home that they can afford. According to the Harvard Joint Center for Housing Studies, 11 million renters in the United States—more than one in four renter families—pay at least half of their monthly income on rent. That is an unprecedented number.

There are many reasons for this growing housing insecurity crisis, but a primary culprit is a lack of quality, affordable rental options for low-income families. For example, the Joint Center estimates that there are 11.5 million extremely low-income renters competing for just 3.3 million rental units that are affordable and available to them. That supply gap has grown by more than 50 percent since 2000.

The GSE affordable housing goals—and specifically the multifamily goals—will be an essential tool in combatting America’s growing housing insecurity crisis. With that in mind, we urge FHFA to take the following steps to strengthen and improve the proposed goals for 2015-1017:

- Increase the low-income and very low-income multifamily goals to ensure that the GSEs are incentivized to expand, or at least maintain, their current support to affordable rental housing.
- Provide guidance to the GSEs as they continue to develop the products necessary to expand their small multifamily businesses, with a focus on promoting competitiveness while protecting taxpayers from excessive risks.
- Consider awarding “bonus” credit for affordable multifamily loans that incorporate basic energy-efficiency standards and affordable small multifamily loans in particularly underserved segments of the market, such as secondary and tertiary markets, high-poverty neighborhoods and rural and tribal communities.

Below we provide further details on each recommendation, as well as answers to specific questions in the proposed rule.

Comments on the low-income and very low-income multifamily goals

If set at appropriate levels, the low-income and very low-income multifamily goals can provide powerful incentives for the GSEs to innovate and maximize their support to affordable rental housing. However, given Fannie’s and Freddie’s recent multifamily production and the market projections described in the proposed rule, we do not believe that the proposed goals for 2015-2017 are high enough to create such an incentive.

To be sure, we appreciate the proposed rule’s apparent change in direction compared to previous iterations of the housing goals. By deciding not to pursue further reductions in Fannie’s multifamily goals while steadily increasing Freddie’s multifamily goals, FHFA is recognizing the importance of the GSE multifamily businesses. This is a welcomed change from the agency’s previous plan to scale back those businesses.

However, as the proposed rule points out, both Fannie and Freddie have routinely surpassed their low-income and very low-income multifamily goals since 2010. For example, Fannie Mae’s low-income multifamily goal for 2013 was 265,000 units, but the company actually financed 326,597 units. Freddie Mac’s low-income multifamily goal was 215,000 units in the same year, but the company actually financed 255,057 units.

Given this trend—and considering FHFA’s new strategic goal of supporting the “affordable and underserved segments” of the multifamily market—one would expect the proposed goals to be significantly higher for 2015 than they were for 2014. However, the proposed rules would keep Fannie’s low-income and very low-income multifamily goals the same for 2015, while increasing Freddie’s goals by just 10,000 units and 3,000 units, respectively.

As proposed, Fannie Mae’s 2015 low-income multifamily goal is 23 percent lower than the company’s low-income multifamily production in 2013, and its 2015 very low-income goal is also 23

percent lower than the company's very low-income production in 2013. For Freddie, the 2015 goals are 18 percent lower and 24 percent lower, respectively. In other words, FHFA seems to imply that Fannie and Freddie should plan to *scale back* their affordable multifamily production in the coming year, not expand it.

We understand that FHFA was considering certain market dynamics in setting these modest goals. According to the market projections described in the proposed rule, the GSEs are expected to take up a smaller share of the multifamily market in the coming years due to increased competition from banks, insurance companies and other private investors. However, at the same time the overall size of the multifamily market is expected to steadily increase. It's unclear whether FHFA expects total GSE multifamily originations to increase, decrease or remain steady in the coming years, which is a crucial factor in determining what would be the appropriate goals for the companies.

It is also important to consider the dynamics of the affordable segment of the multifamily market, not just the multifamily market as a whole. While life insurance companies have increased their lending activity in recent years, they have typically preferred to finance "Class A" multifamily assets, such as luxury apartment buildings in top-tier housing markets. Banks and thrifts have been the GSEs' main source of competition in the more affordable and workforce segments of the market, but their investments are highly volatile and depend primarily on each bank's obligations under the Community Reinvestment Act. It's unclear whether the GSEs should realistically expect increased competition for affordable multifamily products in the coming years.

Given these market dynamics, and considering the breadth and depth of the affordability crisis facing renters at all income levels, we urge FHFA to, at a minimum, require the GSEs to maintain their current production levels of multifamily units that are affordable to low-income and very low-income households.

This basic standard could also be achieved by establishing a new "percentage affordable" target for each multifamily goal. For example, as the proposed rule points out, for each of the past four years at least 75 percent of the multifamily units financed by the GSEs were affordable to low-income renters. It makes sense for that percentage to be the benchmark for the next four years. By comparison, the proposed low-income multifamily goal for Fannie Mae in 2015 represents just 58 percent of the company's total multifamily production last year. Since the Housing and Economic Recovery Act of 2008 states that the multifamily goals must be determined by either unit counts or loan volume, FHFA would have to establish such a "percentage affordable" target as a complement to the current unit-count goals.

If FHFA expects Fannie and Freddie to maintain their current levels of affordable multifamily production—which, again, we believe they should—it will require both companies to continue to innovate and develop new products to better serve this market. We urge FHFA to support such product development efforts at the GSEs. Specifically, we encourage FHFA to work with Fannie and Freddie to develop new products to support the new construction and/or substantial rehabilitation of affordable multifamily properties, such as an expanded competitive forward commitment program.

FHFA should also consider additional incentives for the GSEs to incorporate energy efficiency standards in their underwriting for affordable multifamily loans. We know that there are tremendous economic benefits to investments in energy-efficient systems for multifamily buildings—especially

for the existing affordable housing stock, where we're seeing rising utility costs straining many owners. In addition, green homes have proven to improve a resident's asthma, cardiovascular health, mental health and other major health issues.

Because low-income families have so much to gain from living in healthy, energy-efficient homes, we launched the Enterprise Green Communities initiative more than a decade ago, and today we're working to make green building the norm for our industry. Fannie Mae has been an important partner in that effort, helping multifamily owners and developers secure financing to cover the upfront costs of green building and retrofits. Through its Green Preservation Plus program, Fannie helps owners of affordable multifamily housing access the capital they need to make economically justifiable energy and water retrofits. This also helps Fannie's bottom line: the lower operating costs in green multifamily properties tend to lower the risk of default. The program has helped several developers complete retrofits that otherwise would not be possible, but both Fannie and Freddie could be doing a lot more to support energy-efficiency whenever economically feasible.

One way that FHFA can encourage more energy-efficient financing at the GSEs would be to award "bonus" credit for affordable multifamily loans that incorporate some sort of energy-efficiency standard, such as the Enterprise Green Communities Criteria. For example, the GSEs could receive 1.5-times credit for a multifamily loan that finances an affordable unit that meets such a standard. Further analysis would be required to determine an appropriate "bonus" amount for such an incentive.

Comments on the proposed small multifamily sub-goal

We commend FHFA for including a new sub-goal for lending to affordable small multifamily properties. As the proposed rule explains, roughly a third of the country's rental homes are in buildings with between 5 and 50 units, and small multifamily properties are a critical source of naturally affordable housing. However, these properties are not particularly well served by the secondary mortgage market, which limits an owner's ability to access long-term, fixed-rate financing.

More than anything else, the proposed sub-goal would encourage both GSEs to develop the products and relationships necessary to better serve this segment of the market. The relationship aspect is particularly important, as owners of small multifamily properties tend to be individual or small investors (as opposed to larger institutional investors) that depend on smaller and community banks as their primary source of mortgage capital. Fannie Mae has begun building these relationships through its Small Loan Lenders program, but Freddie Mac is still in the very early stages of that process having just introduced its Small Balance Loan program.

A stronger GSE presence in the small multifamily market will be particularly important during future market downturns, when banks and other private lenders tend to scale back their lending. With the new sub-goals in place, the GSEs would have a strong incentive to stay in the small multifamily market and keep money flowing to owners and developers, which could help mitigate the macroeconomic impact of the downturn.

We understand that both GSEs—and especially Freddie Mac—are in the process of rolling out the necessary products to meet the new small multifamily sub-goals, under FHFA's guidance. Of course, FHFA's goal will be to balance the competitiveness of those products—given the current offerings from banks and other small loan lenders—while adequately compensating the GSEs for the underlying

risk. As the companies work with FHFA to strike that balance, we urge them to keep the following factors in mind:

- **Loan structure and risk-sharing.** Both Fannie Mae's and Freddie Mac's multifamily products have proven to work well for larger-sized, conventional multifamily loans. However, some adjustments might be necessary to make smaller loans economically feasible, such as a larger loan-to-value ratio or specialized underwriting on the borrower. Fannie's and Freddie's multifamily products also have very different risk-sharing agreements. Under Fannie's existing small loan program, approved lenders cover the first five percent plus a significant portion of further losses. Under Freddie's new small loan program, private investors cover the top loss on a pool of loans and the lender must purchase the subordinate bonds on their loan which they in turn can sell to investors. In addition, there is a mandatory repurchase obligation for loans that become more than 60 days delinquent during the first 12 months of purchase. This mandatory purchase of a subordinate tranch is new requirement for multifamily lenders, so FHFA should closely monitor the implementation of this risk-sharing structure and pursue adjustments as necessary.
- **Aggregation risks to the seller-servicer.** Under Fannie Mae's small loan program, approved seller-servicers can deliver individual loans to the company. However, under Freddie Mac's proposed small loan program, originators would have to deliver pools of small multifamily loans generally in a minimum amount of \$50 million, with certain caps on the lender's aggregation risks. FHFA should work with the GSEs to avoid pooling or aggregation requirements whenever possible, or at least make sure that lenders are adequately compensated for any aggregation risks.
- **Origination costs.** By definition, originators generate less fee revenue on low-principal loans than they do on higher-principal loans. However, many of the costs of origination are fixed regardless of the size of the loan. In addition, the underwriting process on smaller loans is often more labor-intensive, in part because the lender must assess the creditworthiness of the borrower, not just the property's cash flow. Fannie has established an effective system for streamlining underwriting and other requirements to reduce the cost of originating smaller loans. Freddie Mac's Small Balance Loan program also provides many streamlined underwriting, processing and closing costs to help keep origination costs down and increase the speed with which these loans can be closed. FHFA should pay particular attention to lender origination costs as Freddie implements its new program.

While it's difficult to find comprehensive data on the small multifamily market, it's safe to say that not every small property in every market has trouble accessing long-term, fixed-rate, affordable financing—especially smaller high-end properties in top-tier markets. To the extent possible, FHFA should focus its attention on the segments of the rental market that are particularly underserved, namely secondary and tertiary markets, high-poverty neighborhoods and rural and tribal communities.

The proposed sub-goal's affordability restriction is a good start, but FHFA should consider incorporating further targets or incentives for small multifamily lending in these underserved segments of the market. One way to do that is by awarding "bonus" credit for certain small multifamily loans. For example, the companies could receive double credit for an affordable small multifamily loan made on tribal land, which could be applied to both the small multifamily sub-goal

and the overall low-income multifamily goal. Further analysis would be required to determine an appropriate “bonus” amount for each targeted segment of the market.

Responses to specific questions in the proposed rule

Counting blanket loans for manufactured housing communities

It would be appropriate to include blanket loans for manufactured housing communities in the multifamily goals. As a general rule, loans to manufactured rental parks should only count toward the low-income and very low-income multifamily goals if the owner provides both affordable rents and security of tenure. For example, FHFA could establish a rule that the GSEs can only receive credit for these loans if tenants are given certain assurances and consumer protections, such as a lease term of at least one year and requirement of good cause for eviction.

In addition, FHFA should also encourage the GSEs to alter their products to better achieve the goals, with a particular focus on the very low-income multifamily goal. For example, today the GSEs are generally limited to purchasing loans on four- or five-star parks, which tend to be targeted to more moderate-income renters (such as retirement communities). As a result, parks with fewer than four stars often have trouble accessing long-term, fixed-rate loans, which often translates into higher-than-necessary rents for residents (many of whom earn very low- and extremely low-incomes). FHFA should work with the GSEs to develop safe, sustainable and affordable loan products focused on middle-end manufactured housing parks, without posing excessive risks to the companies.

Counting single-family rentals

We do not believe that single-family rentals should be counted in the multifamily goals, in part because we do not have sufficient data on the long-term sustainability or affordability of rentals in buildings with fewer than five units. As FHFA continues to learn more about this segment of the rental market, we support reconsidering and updating the agency’s rules.

We do, however, support FHFA’s proposal for expanding the reporting requirements on single-family rentals to better match the information collected on multifamily properties. We urge FHFA to report publicly on this data on at least an annual basis, with separate reporting on rentals in 1-unit buildings and those in 2-4 unit buildings.

Counting methodology for the single-family housing goals

Since Enterprise focuses primarily on affordable rental housing, the proposed rule’s recommendations and questions related to the single-family housing goals are beyond the scope of this comment letter. In general, however, we urge FHFA to maintain their two-part method for monitoring compliance with the single-family housing goals, instead of transitioning to solely a forward-looking benchmark or a backward-looking market analysis. We believe that both analyses are useful in providing a complete and nuanced assessment of the single-family market, and FHFA should continue to use both when setting and tracking goals for each company’s business.

For more on Enterprise’s perspective on the single-family goals, we direct you to the joint comment letter submitted by the Consumer Federation of America and the Center for American Progress.

Next Steps

Again, thank you for the opportunity to comment on this important issue. Through the above improvements to the proposed rule, FHFA has the opportunity to make a meaningful dent in the housing insecurity crisis facing millions of families in communities across the U.S.

That said, the affordable housing goals must be part of a broader strategy for meeting FHFA's goal of supporting the "affordable and underserved segments" of the multifamily market. Such a strategy must also include lifting the suspension of Fannie's and Freddie's legal obligations to fund the National Housing Trust Fund and the Capital Magnet Fund, finalizing the long-delayed Duty to Serve regulations and working with both companies to develop innovative new products for meeting the needs of low- and very low-income renters.

If you have any questions about the above comments, please contact me at asolis@enterprisecommunity.org; Andrew Jakobovics, Enterprise's Senior Director for Policy Development & Research, at ajakabovics@enterprisecommunity.org; or John Griffith, a Senior Analyst and Project Manager at Enterprise, at jgriffith@enterprisecommunity.org.

Sincerely,

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