October 28, 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 General Counsel Pollard,

Thank you for the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) proposed rule regarding the housing goals for Fannie Mae and Freddie Mae (the Enterprises).

The National Housing Trust (NHT) is the nation's leading expert in "preserving and improving" affordable housing, ensuring that privately owned rental housing remains in our affordable housing stock and is sustainable over time. Using the tools of real estate development, rehabilitation, finance, and policy advocacy, the Trust is responsible for saving more than 25,000 affordable homes in 41 states, leveraging more than $1 billion in financing.

NHT has preserved and improved several affordable multifamily properties with financial support from the Enterprises, which is typically layered with other federal and state resources. Here are but a few recent examples:

- We completed a four-phase redevelopment of Poppleton Apartments, preserving 111 affordable apartments with 100 percent project-based Section 8 assistance in West Baltimore, Maryland. Freddie Mac credit enhanced a $5.4 million mortgage, which partially funded $16.8 million of costs that fully recapitalized and preserved this property. This represented was the largest single source of financing. The recapitalization provided desperately needed renovations, crime prevention, and social services, transforming the property into a strong community asset.
- NHT saved Hazel Hill, a development with 147 project-based Section 8 apartments in Fredericksburg, Virginia. Fannie Mae directly purchased $8.1 million in bonds, which funded $15.5 million of costs that fully recapitalized and preserved this property. Again, this represented the largest single source of financing. This funding helped provide badly-needed renovations, anti-crime measures, and social services, converting the property into a valuable neighborhood resource.

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- NHT preserved Landfair, an affordable property with 117 apartments supported by Low Income Housing Tax Credits (LIHTC) in Miami, Florida. Fannie Mae provided a $1.8 million direct loan to the project.

Multifamily Housing Goals: Raise the Low-Income and Very Low-Income Multifamily Goals for the Enterprises

FHFA's proposed rule would maintain the current low-income multifamily goal of 250,000 units for Fannie Mae, while gradually increasing the goal for Freddie Mae to 230,000 units. The rule also would keep the existing very low-income multifamily goal of 60,000 units for Fannie Mae, while gradually raising the goal for Freddie Mae to 50,000 units.

FHFA should raise multifamily housing goals to spur the Enterprises to play "a critical ongoing role in the multifamily sector, particularly for affordable multifamily properties and underserved market segments," as FHFA's Strategic Plan explicitly states.

The Trust urges FHFA to raise the low-income and very low-income multifamily goals for both Enterprises to higher levels, in light of the Enterprise activity levels, which often substantially surpassed these goals in recent years. Both Fannie Mae and Freddie Mac have financed low-income and very low-income multifamily units far in excess of their multifamily goals every year since 2010:

- In 2013, Fannie Mae financed 326,597 low-income multifamily units and 78,071 very low-income units, despite goals of 265,000 and 70,000 respectively.
- The same year, Freddie Mae financed 255,057 low-income multifamily units and 56,752 very low-income units, despite goals of 215,000 and 50,000 respectively.
- In the previous three years, Enterprise multifamily activity levels similarly surpassed both goals.

The Enterprises' strong performance reflects the relatively recent increasing supply of multifamily housing. According to the Joint Center for Housing Studies of Harvard University, multifamily construction had its third consecutive year of solid growth in 2013, up fully 25 percent (62,000 units) to 307,000 units. About one-third of total residential construction (310,000 units) in 2013 was intended for the rental market. Multifamily construction starts were up by double digits in every region of the nation last year.

FHFA and industry experts anticipate that multifamily property values will continue to grow, albeit more modestly, through 2017. The current average vacancy rates and median asking rates indicate that the market for multifamily housing will remain relatively strong. The recent increases in volume for multifamily building permits and housing starts suggest that multifamily housing completions are expected to rise in coming years. Given these trends, FHFA should set the multifamily housing goals above recent activity levels for the Enterprises.

Further, the ongoing rental housing affordability crisis demands that the Enterprises increase the volume of their activity to help provide liquidity in support of housing for low- and very low-income renters. According to the Joint Center for Housing, the number of cost-burdened renters rose to 20.6 million in 2012, with more than one in four renters (27 percent) severely housing cost burdened. By 2012, the number of extremely low-income households had grown to 11.5 million, while the number of affordable and available housing units had increased to only 3.3 million. In other words, there were just 29 affordable and available rentals for every 100 lowest-income households.

Federal rental assistance is wholly inadequate to meet today's demand. According to HUD estimates, the number of households eligible for rental subsidies increased 21 percent between 2007 and 2011, growing from 15.9 million to 19.3 million. But only 4.6 million, or just under a quarter, received assistance in 2011. Rising rents, falling renter incomes, and decreased federal spending have all contributed to this mismatch.

In addition, much of the existing supply of privately owned subsidized housing is at risk. The National Housing Preservation Database shows that the contracts or affordability restrictions on more than 190,000 federally subsidized units are set to expire each year on average over the next decade. Potential losses amount to more than two million units out of a total subsidized stock of 4.8 million.

FHFA has the statutory obligation to enable "liquid, efficient, competitive, and resilient national housing finance markets." Fannie Mae and Freddie Mac are chartered to provide a stable source of housing finance and they have a duty to fully serve all markets, especially low-income families. Conservatorship of the Enterprises does not diminish or negate this responsibility. Given the scope of the rental affordability crisis, FHFA should raise the Enterprises' low- and very low-income multifamily housing goals, to incentivize both Fannie Mae and Freddie Mac to take a more active role in helping to provide financing for affordable multifamily housing.

FHFA should work with the Enterprises to develop innovative products to support new construction of affordable multifamily properties and substantial rehabilitation of existing affordable housing. FHFA also should encourage the Enterprises to become more flexible when working with mission-driven developers who are focused on affordable rental housing. This effort should include revisiting pre-conservatorship initiatives, such as those that provided lines of credit to high-quality mission-based entities which built or preserved affordable housing.

Low-Income Housing Subgoal for Small Multifamily Properties

FHFA's proposed rule would establish a new low-income housing subgoal for small multifamily properties beginning in 2015. NHT generally supports this subgoal, but warns that financing this sector is not without its challenges. As observed in the 2011 report, "Fannie Mae's Role in the Small Multifamily Loan Market," the small multifamily rental market is fragmented, which impedes standardization, efficiency, and the benefits of securitization. Smaller property financing also tends to rely on a disparate range of borrowers, often individual investors, entrepreneurs, or smaller commercial businesses of varying credit profiles. These borrowers often invest in a limited number of properties and operate them on a thin margin with fixed costs, but potentially higher income fluctuation risk. The disparate nature of small multifamily property borrowers also creates financial, underwriting, and credit issues for national investors in the loans, which limits the supply of low-cost liquidity for these loans.

Reliance on Subsidy Program Requirements for Determining Affordability of Rents

FHFA's proposed rule would allow an Enterprise to determine the affordability of a property's rents based on affordability restrictions imposed by local, state, or federal affordable housing subsidy requirements. NHT supports this proposed new counting rule, as it would enable Fannie Mae and Freddie Mac to receive goals credit for any units they finance that are deemed to be affordable by the applicable subsidy program. We hope this will further encourage the Enterprises to support local, state, and federal affordable housing subsidy programs and invest in affordable housing preservation.

Missing Bedroom Data

FHFA's proposed rule would provide that rental units for which bedroom data are missing shall be considered efficiencies for the purposes of calculating unit affordability. Determining the affordability of a rental unit requires adjustments to household size based on the number of bedrooms in a unit. Adjustment is not possible when bedroom data is unavailable, however. NHT supports the proposed rule's effort to balance the effect of missing bedroom data with proper administration of the regulation, by recognizing that the Enterprise in fact purchased the mortgage secured by the rental unit, but only giving credit if it qualifies for the lowest-rent unit permitted to receive goals credit under the rule.

Housing Goals Should be Part of a Broader Strategy

The Enterprises' affordable housing goals must be part of a broader strategy for achieving their public purposes, which include "an affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families." This approach must also include lifting the suspension of the Enterprises' legal obligations to fund the National Housing Trust Fund and the Capital Magnet Fund and finalizing the long-delayed Duty to Serve regulations.

Thank you for this opportunity to comment on FHFA's proposed housing goals for Fannie Mae and Freddie Mac. Please let us know if we can provide additional information.

Sincerely,

Michael Bodaken
President
National Housing Trust