Housing Partnership Network

Social Mission. Private Enterprise.

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

Re: 12 CFR Parts 1282 RIN 2590-AA65 Enterprise Housing Goals

Introduction

The Housing Partnership Network (HPN) appreciates the opportunity to comment on FHFA's proposed 2015-2017 affordable housing goals for Fannie Mae and Freddie Mac.

HPN is a member-driven organization comprised of nearly 100 entrepreneurial, high capacity nonprofits that operate all across the country. The members are diversified social enterprises combining a mission focus with business acumen. HPN members' businesses include lending, real estate development, property management, and housing counseling. All of our member work to link their communities to services – education, workforce development, and health care.

HPN is best described as a business collaborative. The members' senior leadership comes together with their peers to exchange information, solve problems, and share best practices. Their collaborations have spawned member-owned businesses that improve member operations and advance innovations in the practice of affordable housing and community development. For example, when insurance costs spiked after 9/11, members launched a captive property and casualty insurance company that today insures approximately 60,000 homes with $7.0 billion of insurance-in-force. Other businesses that have emerged from these collaborations include a group buying service, companies that acquire and modify distressed mortgage notes to help homeowners stay in their homes and stabilize neighborhoods, a new web-based approach to homebuyer education, and a multifamily real estate investment trust.

Overview of Our Comments

HPN welcomes the opportunity to provide comments on the FHFA proposed 2015-2017 Affordable Housing Goals for Fannie Mae and Freddie Mac. HPN's high-capacity nonprofit members are deeply embedded in their communities across the country. They develop affordable housing for homeowners and renters and work with low-income families to achieve better life outcomes including access to services and homeownership opportunities. As cornerstone housing providers in their communities, our members are keenly aware of the overwhelming demand in underserved communities for affordable mortgage credit and rental housing.

The recovery in the mortgage and multifamily housing market has largely passed over low-income families and communities. Prospective low-income and minority homeowners remain largely locked out of the non-FHA mortgage lending market, and the supply of affordable housing continues to dwindle as rents in large metropolitan areas rise. Fannie Mae and Freddie Mac are a crucial part of the response to the affordability crisis in many of America's communities. In the wake of the last decade's mortgage crisis and subsequent retreat of the private secondary mortgage market, the Enterprises have become the largest source of mortgage capital for homeownership and rental housing. Their credit and underwriting standards are benchmarks for the industry, and their investments in affordable housing have supported sustainable development in communities across the country.

The affordable housing goals are an important driver of affordable housing investments by the Enterprises, which in turn push mortgage originators to widen access to credit in underserved communities. The housing goals should also serve as a mechanism to push the Enterprises to support innovative products that help low-income neighborhoods and families access sustainable homeownership and stable rental housing. The GSEs' role in the markets is even more vital given the absence of comprehensive secondary mortgage market reform legislation enacted by Congress.

There is a strong case for a strong, sustainable set of affirmative affordable housing goals for the Enterprises. Fannie Mae and Freddie Mac are chartered to provide a stable source of housing finance, and they have an obligation to fully serve all markets in all market conditions, especially low and moderate income families. Conservatorship does not diminish this responsibility. The housing goals are an essential means to measure the Enterprises' success at meeting their public purpose and to encourage the Enterprises to responsibly innovate in serving underserved borrowers and communities. Accordingly, we encourage FHFA to set strong goals for the Enterprises in the single-family, multifamily, and small multifamily marketplace.

The GSE Role in the Market for Affordable Housing

HPN's high-capacity nonprofit members are active across the market for affordable housing: they develop and preserve affordable single- and multifamily properties, counsel prospective homeowners and renters, and provide services to their residents and communities. They are also deeply aware of the important role of sustainable and affordable credit to support their work and communities. The following section outlines broad principles that HPN and its members believe should govern FHFA's process in shaping and setting affordable housing goals.

Single-Family Housing

As a result of the housing crisis and Great Recession, the homeownership rate among low-income and minority households has fallen significantly. For example, a study by the Bipartisan Policy Center found that African-American households ended the last decade with a lower homeownership rate than 10 or even 20 years prior.[1] This trend represents a serious challenge to economic growth for low-income families and communities, where the broad availability of sustainable mortgage credit for ownership and rental housing is a critical factor in household stability and wealth building.

HPN and its members believe that the GSEs should be leaders in developing and supporting a healthy, liquid mortgage market for low-income families and communities to access sustainable homeownership. The affordable housing goals are one important way the GSEs can support this market, along with

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[1] Bipartisan Policy Center: Demographic Challenges and Opportunities for U.S. Housing Markets. http://bipartisanpolicy.org/library/report/demographic-challenges-and-opportunities-us-housing-markets

addressing additional factors that continue to contribute to the current tight market for credit, like credit overlays and ongoing servicing uncertainties.

The GSEs can also support a strong market for affordable homeownership by supporting mortgage products that embed risk-mitigating factors like high-quality homebuyer education and housing counseling. Quality homebuyer education is available to families through high-capacity housing counseling agencies, as well as through online platforms like Framework – HPN's premier online education tool.

Housing counseling and homebuyer education enable first-time homebuyers and households recovering from foreclosure to adopt practices that help them sustain homeownership in the long term. Housing counseling can be a risk-mitigating factor for families in underserved communities, thereby facilitating lending and driving access to credit, and can also lower first-time homebuyers' credit risk to primary and secondary market actors.

The GSEs have recognized the potential benefits of housing counseling for homebuyers, embedding counseling in products like Fannie Mae's *My Community Mortgage*. However, the GSEs could do more to incorporate homebuyer counseling and education into their mortgages – for instance, by integrating counseling as a risk-mitigating factor in their underwriting guidelines. The GSEs could also support HFA and nonprofit lending products that integrate homebuyer education and counseling.

Multifamily Housing

The GSEs should also continue their work supporting the market for affordable multifamily housing, which is crucial for addressing the mounting affordability crisis in America's neighborhoods. Currently, half of all renters pay over 30 percent of their gross income on rent, and more than a quarter pay more than 50 percent of their income on rent.[2]

HPN agrees with FHFA that the Enterprises should continue to demonstrate leadership in multifamily affordable housing lending, even as their share of the market falls due to growing private sector participation. While GSE multifamily loan purchases and securitizations continue to represent a significant proportion of the multifamily market – GSE purchase activity represented 57 percent of total multifamily originations in 2011 – the GSEs could still do more to support innovative approaches to addressing the country's rental crisis, with a particularly focus on financing the development and preservation of the affordable housing stock.

The GSEs should continue to expand their affordable portfolio beyond LIHTC properties to include investments that preserve naturally affordable workforce housing, as well as investments that support high-capacity nonprofits and innovative models for financing acquisition and rehabilitation. Several of HPN's high-capacity nonprofit members specialize in acquiring, rehabbing, and preserving workforce housing, which helps to maintain affordability in gentrifying neighborhoods. HPN is also working to innovate new models for financing the acquisition of naturally affordable workforce housing, such as our multifamily REIT, the Housing Partnership Equity Trust.

Small Multifamily Housing

[2] National Low Income Housing Coalition (NLIHC) tabulations of the 2010 American Community Survey.

Finally, HPN members support a strong role for the GSEs in developing the market for credit for small multifamily housing, which has typically been underserved by the GSEs and the private market.

Small multifamily properties have traditionally been an important source of unsubsidized affordable housing in low-income neighborhoods. According to the 2012 Rental Housing Finance Survey, small multifamily properties tend to be older and have lower median rents than large multifamily properties, and also are more likely to be located in low-income neighborhoods. This housing is also much more likely to owned and managed by individuals – 58 percent compared to 8 percent for large multifamily. And, this stock is a significant source of rental housing occupied by low-income people.

The Obama Administration and HUD acknowledged the importance of preserving the affordability of the small multifamily housing stock when they introduced a risk sharing pilot in November 2013, noting that mom-and-pop owners may be unable to sustain affordability of properties in an environment with limited long-term credit availability for small multifamily properties. Strong GSE goals for this market segment may help nonprofit housing providers preserve this key source of affordable housing.

Comments on the 2015-2017 Proposed GSE Goals

Standard for Determining Compliance with Single-Family Goals

GSE performance against the goals set by FHFA should be assessed based on a combined prospective and retrospective analysis. Each method has its respective strengths and weaknesses, and combining the two would provide the most balanced approach. Retrospective analysis helps to ensure that the GSE goals are reflective of recent market trends, but may be less useful in a market that is likely a market trough for lending to low-income households. In this instance, the use of prospective analysis should lead to goals that reinforce increased lending to these populations.

We find commentary by the Urban Institute on the models for single family market estimations of value here.[3] Not only do the models admit enormous ranges in the projected market shares, but FHFA appears to have left out several important variables. Additionally, the models are based on a market that is both dominated by the GSEs and currently underserving target populations. Basing the goals on these models risks locking in GSE performance based on their current practices.

FHFA should set goals levels and other scoring features that provide incentives to the Enterprises to maximize their support for responsible credit for targeted groups while acknowledging that market conditions may mitigate against their success in any single year.

One possibility is that FHFA could commit to continually monitoring market trends and recalculating the goal benchmarks over time as new market data becomes available. Another possibility is for to FHFA to set more ambitious goal levels and adopt the two-part (market and retrospective) test for determining Enterprise compliance. FHFA could push the Enterprises to responsibly innovate and adopt policies that enable them to serve targeted populations while also relying on the market standard to assess if the goals are set too high.

[3] Jim Parrott, Laurie Goodman, Wei Li, Ellen Seidman, and Jun Zhu, "Assessing the Proposed Housing Goals," (The Urban Institute: 2014), Forthcoming.

Multifamily Housing Goal Levels

We believe FHFA's proposed multifamily goals are too low, especially given the current outsize role of the GSEs in ensuring that supply of affordable rental housing meets demand. The Enterprises have consistently exceeded their multifamily goals in recent years, sometimes dramatically. For instance, in 2013 Fannie Mae mortgage purchases backed 326,579 low-income multifamily units and 78,071 very-low income units, exceeding its respective targets of 265,000 and 70,000 units. Freddie Mac also outperformed its goals targets in 2013, financing 255,079 low-income and 56,752 very-low income units, compared to its targets of 215,000 and 50,000 units respectively.[4]

Though the Enterprise share of the market could decline as private sources of capital become increasingly competitive, the GSEs will continue to be an important backer of affordable multifamily construction and preservation. Units affordable to low- and very low-income renters have made up an increasing share of Fannie Mae and Freddie Mac's multifamily businesses, a trend we hope will continue as a result of FHFA's explicitly prioritizing the affordable segment of the multifamily market. Even if the Enterprises' multifamily volumes decline to pre-Recession levels, the number of affordable units they support may remain far higher than the goals they are currently subject to. We are concerned that the proposed 2015-2017 goals may in fact represent a rolling back of GSE activity in this market. For example, Fannie Mae's 2013 low- and very-low income multifamily production were both 23 percent higher than the proposed goal levels for 2015.

FHFA should use the multifamily goals to encourage the Enterprises to identify and support underserved segments of the multifamily market by providing other incentives for innovation beyond the goals levels. For example, there may be room for product innovations to support the construction of affordable multifamily properties through forward commitment loans or investments in affordable multifamily REITs like HPN's Housing Partnership Equity Trust. The housing goals rules process should also include revisiting pre-conservatorship initiatives, such as those that provided lines of credit to high-quality mission-based entities who built or preserved affordable housing.

Small Multifamily Goals

With the establishment of subgoals for small multifamily properties, FHFA has taken a major step in addressing financing shortfalls in this important market. It is often a challenge for small multifamily properties to access affordable, fixed-rate financing, in part due to a lack of standardized lending products, a more disparate range of borrowers including mom-and-pop owners, and relatively fixed origination costs despite smaller loan sizes and origination fees. Yet small multifamily properties represent a significant stock of naturally affordable rental housing, especially in low-income neighborhoods.

Several HPN members have developed innovative approaches to preserving the affordability of small multifamily properties. HPN member Project for Pride in Living, based in Minneapolis, Minnesota, has

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[4] FHFA, 2013 Annual Housing Report, http://www.fhfa.gov/AboutUs/Reports/Pages/FHFA-2013-Annual-Housing-Report.aspx

acquired and rehabilitated over sixty small multifamily units in North Minneapolis. Connecticut's Housing Development Fund, a CDFI, created an affordable mortgage product for owner-occupants of small multifamily buildings, which embedded homebuyer and landlord education with sustainable financing.[5]

Freddie Mac's announcement that it will begin offering a product specifically targeting small multifamily properties is an important step toward better serving this market. FHFA's subgoals will also incentivize the Enterprises to continue to adapt their services for small multifamily properties and support innovations by high-capacity nonprofits and CDFIs. As the Enterprises' approaches to the small multifamily market evolve, it will also be important for FHFA to monitor the effectiveness and risk of the GSEs' efforts in this space.

Conclusion

Thank you, in advance, for your consideration of these comments. Please contact our Executive Vice President for Policy and External Affairs, Paul Weech, at 202-677-4292 or weech@housingpartnership.net if you would like more information on our views or to explore any of the issues raised by this letter in more detail.

Sincerely,

Paul Weech

Paul Weech

Executive Vice President for Policy and External Affairs

Housing Partnership Network

[5] Sarah Berke, Joan Carty, and Barbara McCormick: Preserving Small Rental Buildings. Boston Federal Reserve Communities & Banking Magazine, Fall 2013. http://www.bostonfed.org/commdev/c&b/2013/fall/preserving-small-rental-buildings.htm