National Housing Resource Center
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October 28, 2014

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

Dear Mr. Pollard:

The National Housing Resource Center (NHRC) is a national advocacy organization for the nonprofit housing counseling community and housing consumers, especially those from low- and moderate-income communities, communities of color, and other underserved populations. Housing counselors are on the front lines of the many housing issues we face, including the ongoing foreclosure crisis and the lack of access to affordable mortgage credit. One important component of housing counseling is working with low- and moderate-income people to prepare them for sustainable homeownership. Accordingly, access to affordable mortgage credit for low- and moderate-income borrowers is a serious concern for our community and NHRC appreciates the opportunity to comment on the Federal Housing Finance Administration's (FHFA's) proposed Housing Goals for 2015-17.

There are roughly 2,400 HUD-approved housing counseling agencies around the country, including in all 50 states, the District of Columbia, and Puerto Rico. These agencies counsel a diverse base of people on a broad range of homeownership and rental issues. In FY 2013, for example, housing counseling agencies provided education and/or counseling to more than 1.5 million households, more than 1 million of whom were low- or moderate-income.[1] Housing counseling clients are also racially and ethnically diverse, with more than 50 percent identifying as a race other than white and 17 percent identifying as Hispanic.[2] Of the 1.5 million households who received housing counseling and/or education from a HUD-approved agency, more than 375,000 received pre-purchase counseling or education.

The lack of affordable mortgage credit that is seen by the housing counseling community persists in spite of Fannie Mae and Freddie Mac's (the "Enterprises") obligation to fully serve all markets, including low- and moderate-income communities and communities of color. In 2012, for example, the Enterprises purchased only 16 percent of home-purchase loans that were originated in low-income and

[1] HUD Office of Housing Counseling, HUD 9902 Data from October 1, 2012 to September 30, 2013 (available online at http://portal.hud.gov/hudportal/documents/huddoc?id=OHC_2013Q49902020314.pdf).
[2] *Id.*

majority-minority census tracts, 25 percent of those made to African Americans, and fewer than a third of those made to Hispanics or Latinos.[3]

Access to affordable mortgage credit is critical to the low- and moderate-income communities and communities of color that are served by the housing counseling community. Homeownership continues to be the single most important wealth-building tool for low- and moderate-income communities and communities of color, but while homeownership remains high for non-Hispanic white households (above 70 percent), it has declined significantly among Black and Hispanic/Latino communities since the Great Recession and remains below 50 percent.

A lack of affordable rental housing is also a major burden for many of the low- and moderate-income households and households of color that the housing counseling community serves. According to the Harvard Joint Center on Housing Studies, half of all renters are currently "cost-burdened," meaning they pay more than 30 percent of their gross income for rent, and more than a quarter pay more than 50 percent.[4] The lack of affordable rental housing is felt especially acutely in communities of color, with nearly half of all low- and extremely low-income renters being households of color.[5]

Fannie Mae and Freddie Mac remain the largest source of mortgage capital for both ownership and rental housing, and their underwriting and credit standards effectively determine who will, and who will not, receive non-government mortgage credit, as well as the terms upon which mortgage credit will be offered. The housing goals are a critical tool for encouraging the Enterprises to meet their obligation to fully serve all markets, especially low- and moderate-income borrowers. We strongly encourage FHFA to set strong goals that will expand access to responsible, sustainable mortgage credit for low- and moderate-income borrowers and borrowers of color.

Standard for Determining Compliance with the Housing Goals

FHFA has asked for comment on whether to maintain the current standard for determining compliance with the single-family housing goals. The current standard includes both a forward-looking "benchmark" test and a backward-looking "market" test, which compares the Enterprises' performances to HMDA data, either of which can be satisfied to meet the housing goals. Alternatively, FHFA has asked whether to adopt either one or the other of the benchmark and market tests alone.

We believe FHFA should maintain its current practice of setting a benchmark and also looking at the market retroactively. It is important to have both because neither the benchmark nor market test alone is a perfect tool for measuring the Enterprises' compliance with the goals. The benchmark test relies on certain key assumptions about the economy and the housing market and if those assumptions prove to

[3] Analysis of 2012 Home Mortgage Disclosure Act Data for applications for conforming loans for the purchase of one-to-four family owner-occupied units.
[4] Harvard Joint Center on Housing Studies, "America's Rental Housing: Evolving Markets and Needs" (2013), p. 6 (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf).
[5] National Low Income Housing Coalition tabulations of the 2010 American Community Survey.

be incorrect, it can place a heavy burden on the Enterprises. The market test is also problematic in that it encourages the status quo and so may discourage the Enterprises from pushing the primary market to expand access to responsible mortgage credit for the populations who are targeted by the goals.

It is critical, though, that FHFA set goals that will push the Enterprises to maximize their support for expanding access to responsible credit for populations who are targeted by the goals. Consequently, we suggest that FHFA set a more aggressive benchmark than it has suggested. Because we have concerns about FHFA's modeling (see section below), and because we know from other metrics that the Enterprises' tight credit box has driven many low-income borrowers and borrowers of color out of the market entirely, we think a target rate of 27 percent is appropriate. Then, if an Enterprise fails to meet a benchmark, FHFA can use the retrospective market data to evaluate whether that failure should be penalized or excused.

Single-family Goals Levels

There are several problems with FHFA's single-family market estimations. The single-family estimations appear to have left out several important variables and include enormous ranges in the projected market shares. Furthermore, the models are based the Enterprises' current practices, which are underserving target populations and the Enterprises are currently dominating the market currently.

There are preferable alternatives to FHFA basing the goals benchmarks on their models. One option would be to monitor market trends and revise the goal benchmarks as needed to reflect changes in market conditions. Another option would be for FHFA to maintain the current two-part test for evaluating the Enterprises' compliance with the goals and to set more ambitious benchmarks. This would push the Enterprises to be more innovative in their approach to responsibly meeting the benchmarks while still allowing the Enterprises to rely on the market test if the benchmarks are set too high.

Multifamily Goals Levels

The need for affordable multifamily properties far outstrips the supply for these units, making this a market segment that would greatly benefit from increased support from the Enterprises. In recent years, however, the Enterprises have consistently exceeded their multifamily goals, sometimes by a large measure, suggesting that FHFA has been overly conservative when setting the multifamily goals.

We encourage FHFA to be more aggressive in setting the multifamily goals levels. While we recognize that the Enterprises' share of the multifamily market will likely decline as private capital becomes increasingly competitive, the overall size of the multifamily market is expected to increase. Furthermore, units that are affordable to low- and very-low income renters have made up an increasing share of the Enterprises multifamily business in recent years, a trend we hope and expect to continue, which suggests the Enterprises will continue to be able to meet more ambitious multifamily goal levels.

Small Multifamily Goals

Small multifamily units are a critical segment of the affordable housing market and there is an urgent need for greater access to affordable, fixed-rate financing for these properties. Freddie Mac's new product targeting small multifamily properties will be an important step in this direction. We applaud FHFA for establishing a small multifamily sub-goal, which will push the Enterprises to further innovate their approach to the small multifamily market and is also an important step towards improving access to affordable, fixed-rate financing for this important piece of the affordable housing market.

Single-family Rental and Two-to-Four Unit Owner-Occupied Rental Properties

Affordable rental housing is a major concern, with half of all renters currently "cost-burdened," meaning they pay more than 30 percent of their gross income for rent, and more than a quarter paying more than 50 percent of their gross income.[6] One-to-four unit rental properties are a critical component of the affordable rental market and one that must be supported by the Enterprises. One-to-four unit buildings supplying more than half of all occupied rental units,[7] three-quarters of unsubsidized rental units with rents below $400 a month,[8] and nearly 60 percent of unsubsidized units with rents between $400-599.[9] Accordingly, we support affordable housing goals for one-to-four unit rentals.

We also support FHFA's proposal to require additional reporting on single-family rental properties. The additional reporting will allow us to better understand the role the Enterprises play in financing this important segment of the affordable rental market. We also encourage FHFA to require separate reporting of information on rental units in owner-occupied and investor-owned single-family properties, separate reporting on rentals in one-unit buildings and in two-to-four-unit buildings, and the number and unpaid principal balance of the Enterprises' acquisitions of mortgages in investor-owned one-unit and two-to-four-unit buildings.

Bonus Credit for Two-to-Four Unit Owner-Occupied Properties

Owner-occupied two-to-four unit properties are an important segment of the housing market for low- and moderate-income homebuyers and one where there is a need for increased access to affordable credit for qualified borrowers. When well-underwritten and combined with quality housing counseling, owner-occupied two-to-four unit properties are an important opportunity for affordable homeownership for lower-income borrowers, with rental income supporting mortgage payments and building maintenance. Accordingly, we support a bonus credit valued at 1.25 for two-to-four unit buildings that are owner-occupied and where the owner has completed housing counseling with a HUD-approved housing counseling agency, including landlord counseling for owner-occupants of two-to-four

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[6] Harvard Joint Center on Housing Studies, "America's Rental Housing: Evolving Markets and Needs" (2013), p. 6 (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf).
[7] *Id.*
[8] Harvard Joint Center on Housing Studies, "America's Rental Housing: Rental Housing Stock" (2011) at p. 22 (available online at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ahr2011-4-stock.pdf).
[9] *Id.*

unit buildings. Providing a bonus credit will encourage the Enterprises to expand their use of housing counseling agencies for owner-occupants of two-to-four unit properties and prepare them for homeownership. Including a landlord counseling component will mean that homeowners will have the added benefit of education on tenant selection, legal responsibilities, maintenance, and budgeting with rental units. Housing counseling agencies have seen the improved loan performance when homeowners with two-to-four unit properties have had landlord counseling.

Manufactured Housing Communities

Manufactured housing is an important and often neglected segment of the affordable housing market. We urge FHFA to include Enterprise support for Resident-Owned Communities (ROCs) under the multifamily goals and, under certain circumstances, investor-owned communities. Specifically, support for investor-owned communities should only be counted towards the goals where rents are affordable to residents and where residents are given assurances of the security of their tenure and access to other consumer protections, including requiring good cause for eviction, a guaranteed term of at least one year that is renewable in the absence of good cause, the provision of written notice of rent increases and written information on any rent increase policies, a grace period for rent payments, no restrictions on the formation of resident associations or other restrictions on residents rights to associate and organize, providing a resident association the right be notified and present a competing purchase offer prior to the sale or closure of the community, and provisions that permit the owner or lender to transfer the home to a new owner in the case of default.

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