Fannie Mae

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General Counsel
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Eighth Floor
400 Seventh Street SW
Washington, DC 20024
By email through www.fhfa.gov/open-for-comment-or-input.

Re: RIN 2590–AA81 – Proposed Rule on 2018-2020 Enterprise Affordable Housing Goals

Dear Mr. Pollard,

Fannie Mae welcomes the opportunity to submit comments on the Federal Housing Finance Agency (FHFA) Proposed Rule on Enterprise Housing Goals for 2018-2020 (Proposed Rule).[1]

Fannie Mae was established as part of the New Deal almost 80 years ago to create a strong foundation for housing by bringing stability and liquidity into the market and facilitating the financing of affordable housing. However, today American families are still challenged to find an affordable house or apartment.

There are many reasons for this. While low interest rates continue to support housing affordability, housing prices – particularly for lower cost single-family homes – continue to rise faster than wages. Moreover, construction of affordable single-family housing is also well below historical norms.

Similarly, while multifamily construction has recovered since the 2008 crisis, practically none of this new construction is affordable. Amply illustrating that the more affordable housing is, the harder it is to find, at the end of Q1 2017, the vacancy rate for subsidized housing was at 1.6 percent, Class B/C multifamily rentals were at 2.9 percent, workforce housing was at 5.4 percent, and high rent multifamily housing had a vacancy rate of 9.1 percent.

The statutory standard for determining whether housing is "affordable" is generally whether it costs homeowners and renters more than 30 percent of family income. The number of cost burdened households — those who pay more than 30 percent for their housing costs — decreased in 2015. However, 38.9 million households were still cost burdened in 2015. Similarly, the number of households that were considered severely housing cost burdened,

[1] 2018-2020 Enterprise Housing Goals: Proposed Rule, 82 Fed. Reg. 31009 (July 5, 2017), republished 82 Fed. Reg. 31514 (July 7, 2017)(to be codified at 12 C.F.R. part 1282). All citations herein are to the July 5th publication.

paying more than 50 percent of income) decreased in 2015. Nonetheless, 7.6 million families still paid much of their income toward their housing costs in 2015.[2]

Because we know that these are not just numbers, but actual families that we serve, Fannie Mae takes its affordability mission very seriously. To that end, since the beginning of 2015, the year the existing housing goals rule became effective, Fannie Mae has:

- Acquired well over a million single-family loans to very low- and low-income families.

- Financed almost 840,000 multifamily rental units affordable to very low- and low-income renters.

During this same time, Fannie Mae undertook a number of steps to facilitate the financing of housing for families of modest means, including:

- Enhancing Desktop Underwriter® (DU®), our automated underwriting technology, to make the mortgage process simpler and easier and give lenders new tools to help them lend to more homebuyers across the income spectrum.

- Introducing Day 1 Certainty™, a suite of data validation tools which enhances lenders' ability to safely and sustainably serve borrowers with diverse needs and profiles.

- Creating a refinancing product which helps pay down student debt and widens borrower eligibility to qualify for a home loan.

- Facilitating lender participation by allowing the use of DU to finance Community Land Trust loans, which support the preservation of long-term affordable housing.

- Developing the HomeReady® mortgage which provides for loans with financing of up to 97 percent LTV, authorizes the use of Community Seconds®, supports the financing of manufactured housing, and allows the use of non-traditional income for underwriting purposes.

- Providing $4.6 billion in financing for Manufactured Housing Communities and acquiring more than 17,200 loans on single-family manufactured housing, both of which support affordable housing for tens of thousands of families across the country.

- Sponsoring Healthy Housing Rewards, an initiative that makes enhanced pricing available for newly constructed or rehabilitated multifamily affordable housing providing for improved air quality that encourages physical activity, and incorporates common space, community gardens, and playgrounds.

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[2] *The State of the Nation's Housing 2017*, Joint Center for Housing Studies at Harvard University 5 (June 2017)(*The State of the Nation's Housing 2017)*.

We look forward to continuing to carry out our affordability mission and serving the families it targets. To that end, our comments on the Proposed Rule address the proposed single-family and multifamily goal levels, existing counting rules that impact achievement of the goals, and considerations in requiring housing plans.

I. Single-Family Benchmarks

Application of a New Forecasting Model

The Proposed Rule would provide that in order to meet a single-family housing goal or subgoal, the percentage of mortgage purchases by an Enterprise that meet each goal or subgoal must exceed either the benchmark level or the market level for that year. The proposed benchmarks for the single-family housing goals for 2018-2020 are as follows:

Single-Family Housing Goals	Proposed Benchmark Level for 2018-2020
Low-Income Home Purchase Goal: Home purchase mortgages on single-family, owner-occupied properties with borrowers with incomes no greater than 80 percent of area median income (AMI).	24 percent
Very Low-Income Home Purchase Goal: Home purchase mortgages on single-family, owner-occupied properties with borrowers with incomes no greater than 50 percent of AMI.	6 percent
Low-Income Areas Home Purchase Subgoal. Home purchase mortgages on single-family, owner-occupied properties with: (a) Borrowers in census tracts with tract median income of no greater than 80 percent of AMI; or (b) Borrowers with income no greater than 100 percent of AMI in census tracts where (i) tract income is less than 100 percent of AMI, and (ii) minorities comprise at least 30 percent of the tract population.	15 percent
Low-Income Refinancing Goal: Refinancing mortgages on single-family, owner-occupied properties with borrowers with incomes no greater than 80 percent of AMI.	21 percent

These benchmarks were established using updated models (FHFA Model):

> Throughout 2016, FHFA met with industry modeling experts about potential improvements to the econometric models. Considering input received, FHFA has revised the market forecast models to include better specifications and new variables for all goal-qualifying shares, while still following and adhering to generally accepted practices and standards adopted by economists, including those at other federal agencies.[3]

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[3] Proposed Rule at 31012-31013 (footnotes omitted). The bases for this model are discussed at more length in the FHFA research paper *The Size of the Affordable Mortgage Market: 2018-2020 Enterprise*

We appreciate having the opportunity to comment on this analysis with the following observations.

- Fannie Mae's housing goals forecast model is similar to the version of FHFA's housing goals forecast model used to determine the 2015-2017 goals (Fannie Mae Model). Our model produces lower forecasts for the Low-Income Purchase Goal and the Very Low-Income Purchase Goal. Accordingly, we have some concern.

- By their construction, both the Fannie Mae Model and the FHFA Model equally weigh the past years, although the market conditions change over time. While we are not recommending adding factors to the FHFA Model, some factors outside the model should be considered such as the tight inventory and fast price appreciation in the low house price tier markets as well as the slow housing starts.

- Differences in forecast outcomes can occur due to both model specification differences and differences in model input forecasts. Both of these differences exist between the Fannie Mae Model and the FHFA Model.

- To assess the impact of differences in input variable forecasts across the two sets of models, we also forecast our models with the input values for the input variables common to both the Fannie Mae Model and the FHFA Model. The only inputs that seem to have significantly different forecasts in the Fannie Mae Model relative to the FHFA Model are that the Fannie Mae Model uses both the Fed 10 year Yield and the Freddie Mac 30 year rate. Replacing our forecasts of these inputs with the values used in the FHFA Model leads to a significant decrease in the forecasted goal performance for the Low-Income Purchase Goal and the Very Low-Income Purchase Goal in 2019 and 2020, and a significant increase for the Low-Income Areas Home Purchase Subgoal and the Low-Income Refinancing Goal. This is due to these interest rates having a differential impact across these two sets of models.

- In the FHFA Model, variables are included for which coefficient estimates are not different from zero in a statistically significant manner, yet these will have predictive power to influence model forecasts. This means that the FHFA Model makes use of imprecisely estimated variable impacts (as evident by their large standard errors relative to coefficient estimates) in forecasting market performance, thus having an adverse impact on the forecast precision. There are instances where these variables are included even without statistical significance because they are the only variable that addresses one of FHFA's seven categories (*See e.g., The Size of the Affordable Mortgage Market* at 5). For example, the 30-yr FRM rate is not significant in the FHFA Model in estimating the Low-Income Purchase Goal and Very Low-Income Purchase Goal performance, but it is the only variable FHFA uses to address the "interest rate environment." However, when there are multiple variables for any of the seven categories included in the FHFA Model, some of which are statistically significant, but variables in the model within that category that aren't statistically significant are also included, this seems redundant and may be a concern. One example is the use of the

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Single-family Housing Goals which was published at the same time as the Proposed Rule (*The Size of the Affordable Mortgage Market*).

unemployment rate in the "Expectation factors and the health of the economy" category in the FHFA Model for the Low-Income Purchase Goal and the Very Low-Income Purchase Goal even though it doesn't have a statistically significant impact.

Attached as Appendix A is a series of slides comparing the forecasts of market performance for the single-family housing goals using the Fannie Mae Model and the FHFA Model. We hope these will be helpful in explaining our observations.

Given our observations and the analysis reflected in our slides, we believe the Low-Income Purchase Goal should be set at 21 percent and the Very Low-Income Purchase Goal should be set at 5 percent. In light of the tight supply of moderately priced homes, the concentration of job growth in urban areas, and continued competition from FHA, we think these targets are more realistic.

Adjustment to Goals and Feasibility Determination

The Proposed Rule recognizes that the benchmarks may need to be reduced in a given year based on changes in certain conditions and for purposes of safety and soundness. In addition, if a goal is deemed not feasible then it will not be enforced for that year.

> Under the housing goals regulation first established by FHFA in 2010, as well as under this proposed rule, FHFA may reduce the benchmark levels for any of the single-family or multifamily housing goals in a particular year without going through notice and comment rulemaking based on a determination by FHFA that (1) market and economic conditions or the financial condition of the Enterprise require a reduction, or (2) 'efforts to meet the goal or subgoal would result in the constraint of liquidity, overinvestment in certain market segments, or other consequences contrary to the intent of the Safety and Soundness Act or the purposes of the Charter Acts.' The proposal also takes into account the possibility that achievement of a particular housing goal may or may not have been feasible for the Enterprise. If FHFA determines that a housing goal was not feasible for the Enterprise to achieve, then the regulation provides for no further enforcement of that housing goal for that year
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> If, after publication of a final rule establishing the housing goals for 2018 through 2020, FHFA determines that any of the single-family or multifamily housing goals should be adjusted in light of market conditions, to ensure the safety and soundness of the Enterprises, or for any other reason, FHFA will take steps as necessary and appropriate to adjust that goal.[4]

We suggest that there are important instances fitting these criteria which should be taken into consideration in determining whether the benchmarks may need to be reduced or whether a goal is feasible.

- One instance is where a significant number of loans are not sold into the secondary market in a given year. Under the existing and Proposed Rule, mortgages which are not sold into the secondary market are included in the denominator when calculating housing goals. However, it is our understanding that one of the reasons why these

[4] Proposed Rule at 31010-31011 (footnotes omitted).

loans are not sold into the secondary market is because they do not meet Enterprise credit standards. We believe this may skew the calculation by holding the Enterprises responsible for acquiring loans which are unavailable to them because their acquisition may not be consistent with notions of safety and soundness. Accordingly, HMDA originations alone should not be used to establish goals. Instead, perhaps a range of the percent of qualifying purchases should be considered which would facilitate taking into consideration the realities of the market.

- The housing market is constantly changing. For that reason, "economic, housing and demographic conditions" should be considered robustly throughout the three year housing goals cycle to take into consideration present day realties which may justify changes in the benchmarks. For example, many single-family homes have been acquired by investors for rental purposes and are no longer available for purchase by families of modest means. Nonetheless, they are a significant source of affordable housing for families who are unable or who choose not to acquire their own homes. However, because their continued transformation into rental units disqualifies them for housing goals eligibility, the market should be resized accordingly.

- Similarly, the realities of the metropolitan multifamily market need to be balanced against the realities of "the size of the multifamily market for housing affordable to low-income and very low-income families." For housing goals purposes, a rent level is considered affordable ". . . if it does not exceed 30 percent of the maximum income level of such income category, with appropriate adjustments for unit size as measured by the number of bedrooms. . . ."[5] However, given rising rents, continued flat incomes, and practically non-existent construction of Class C multifamily housing, it is increasingly hard to meet this requirement. As noted above, almost 39 million American families were considered housing cost burdened in 2015. Therefore, apartment units occupied by those families do not qualify for housing goals. As a result, the housing market may need to continue to be resized throughout the three-year cycle.

II. <u>Multifamily Goals</u>

The Proposed Rule would establish the multifamily rental housing goals as follows:

- At least 315,000 dwelling units affordable to low-income families financed by mortgages purchased by the Enterprise in each year for 2018, 2019, and 2020 (Low-Income Goal).

- At least 60,000 dwelling units affordable to very low-income families financed by mortgages purchased by the Enterprise in each year for 2018, 2019, and 2020 (Very Low-Income Subgoal).

- At least 10,000 dwelling units affordable to low-income families in small multifamily properties (5-50 units) financed by mortgages purchased by the Enterprise in each year for 2018, 2019, and 2020 (Small Multifamily Low-Income Subgoal).

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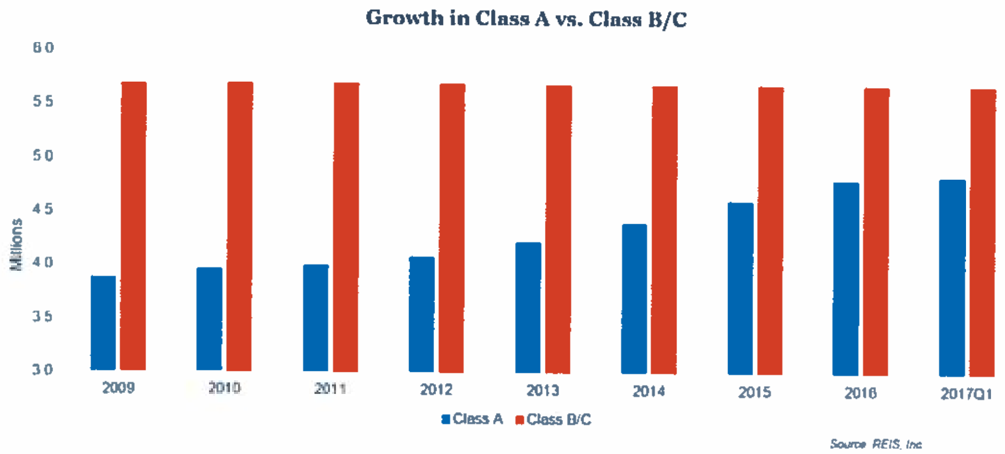
[5] 12 U.S.C. § 4563(c).

We believe FHFA's analysis in reaching these goal levels is thorough and well-reasoned, but we have reached slightly different conclusions. The increases reflected in the Proposed Rule are based on the number of units we have delivered through 2016. However, we are estimating that the overall market size is expected to be lower in 2017 and 2018 than in 2016. Accordingly, we have a number of observations we wanted to share for FHFA to consider.

First, although the proposed target for the Low-Income Goal is increased to 315,000 from 300,000, based on Fannie Mae's and Freddie Mac's performance, the inventory of these types of units is not increasing. As seen in the chart below, at best the amount of institutional investment grade Class B and Class C rental housing stock has remained constant since 2009 at about 5.7 million units, while the Class A rental units have been increasing to an estimated 4.7 million units in 2017Q1. As a result, there is a smaller and smaller segment of units that will extend into the near future given the impact of the refinance timeline.



Source: Reis, Inc.

Second, according to Harvard's Joint Center for Housing Studies, nearly half of the nation's 100 largest metro areas posted absolute declines in their stocks of low-rent units (defined as having real gross rents under $800) between 2005 and 2015. As shown on the chart below[6], the total number of units renting for less than $800 declined by over 260,000 from 2005 to 2015, while the overall rental stock increased by over 6.7 million units. Metro areas with the largest losses in percentage terms included Austin, Denver, Portland, and Seattle, where supplies were down by a third or more. In light of the loss of rental housing stock at the lowest rent levels, we believe that the level for the Very Low-Income Goal should be reduced from the current 60,000 units.[7]

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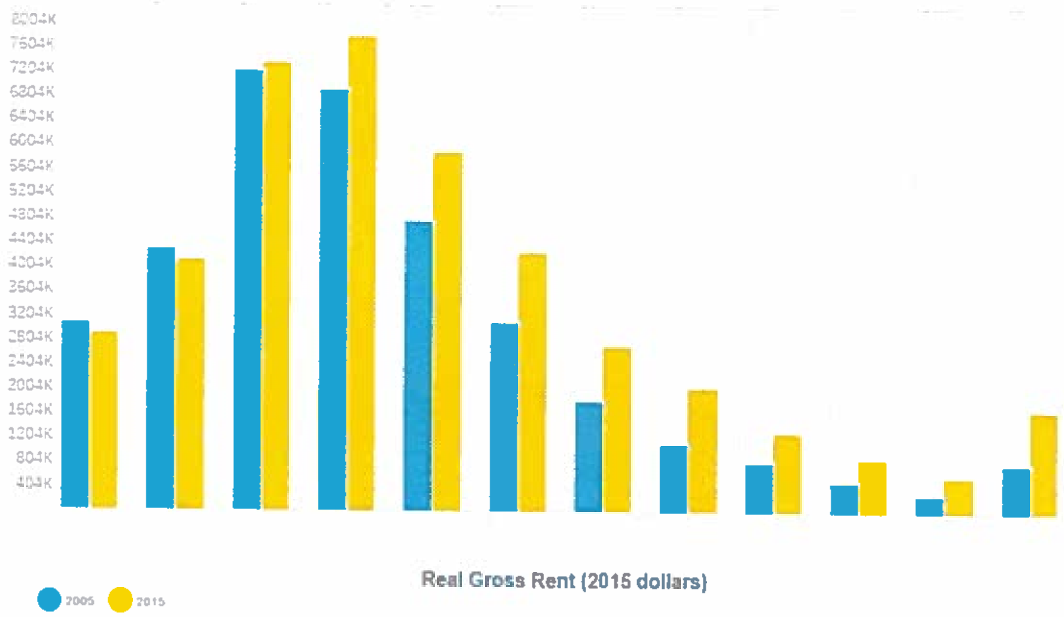
[6] *The State of the Nation's Housing 2017* at 27.
[7] Id. at 28.

The U.S. is adding high-rent units and losing low-rent units



Notes: Data exclude rental units occupied without payment of rent. Gross rents are adjusted by the CPI-U for All Items less shelter.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates

Finally, the proposed level for the Small Multifamily Low-Income Subgoal would be the same as the current 2017 goal level of 10,000 units, based primarily on activity levels in previous years. However, we anticipate overall lending volume in this market to be below the volume in 2016. In addition, the small multifamily market appears to have sufficient liquidity as it is financed by a variety of banks and private lenders, as seen in the table below:

Major Lenders by Loan Volume – Small Multifamily Rental Properties

Private Individual	1,078	818,488,771	759,266
JP Morgan Chase Bank NA	239	459,569,752	1,922,886
Private Lender	180	270,406,006	1,502,256
First Republic Bank	54	188,483,657	3,490,438
Signature Bank	22	156,256,299	7,102,559
US Bank N A	21	118,133,306	5,625,396
Seller	64	96,476,055	1,507,438

First Foundation Bank	28	72,763,750	2,598,705
CBRE Cap Markets	29	66,089,800	2,278,959
Luther Burbank Savings	49	65,913,400	1,345,171
Dime Community Bank	11	61,344,182	5,576,744
Opus Bank	35	60,169,345	1,719,124
Banc of California	14	56,105,000	4,007,500
Umpqua Bank	28	52,883,619	1,888,701
Greystone	23	51,101,654	2,221,811

Source: CoStar Group, based on lending for sales and refinances. Excludes, corporate, student and seniors housing categories. YTD is year-to-date through June 30, 2017

Accordingly, for the reasons cited, we request that FHFA consider reducing the proposed multifamily housing goals levels as follows:

- The Low-Income Housing Goal from 315,000 units to 300,000 units in each year for 2018, 2019, and 2020.
- The Very Low-Income Housing Subgoal from 60,000 units to 55,000 units in each year for 2018, 2019, and 2020.
- The Small Multifamily Low-Income Housing Subgoal from 10,000 units to 9,000 units in each year for 2018, 2019, and 2020.

III. Counting Rules

Section 1282.16 of the existing regulation provides special rules pertaining to what loan purchases may and may not be counted for housing goals. Fannie Mae suggests the following changes be made as part of the 2018-2020 rulemaking.

§ 1282.16 Special counting requirements.

Subordinate Mortgages

Prior to the adoption of the 2010-2011 housing goals final rule, subordinate mortgages were eligible for housing goals on both single-family and multifamily properties. When the 2010-2011 rule was finalized, a decision was made to end their inclusion.[8]

The formal reasoning provided for this change with respect to multifamily mortgages was that:

[8] Because the Housing and Economic Recovery Act of 2008 provided that the single-family goals must be based on purchase mortgages, inclusion of subordinate financing for single-family goals purposes was effectively terminated. However, there is no such statutory impact on multifamily mortgages – this termination was a regulatory determination and could be reversed.

> Although multifamily mortgages that finance dwelling units affordable to low-income families generally count toward the housing goals, it is not clear whether all subordinate lien multifamily mortgages are for the purpose of financing dwelling units affordable to low-income families. Accordingly, the final rule does not allow credit for subordinate lien multifamily mortgages.[9]

We understand the potential concern that second mortgages may be used for the borrower to "cash out" its interest in the property rather than for the benefit of the property. However, we believe that in a market where families are housing cost burdened, new multifamily affordable housing is not being constructed, and rental housing stock is aging, second mortgages are essential for purposes of rehabilitating and preserving affordable rental housing.

We suggest that to address this issue and the need to preserve affordable rental housing, this exclusion be limited to situations other than those involving rehabilitation of the property. Accordingly, we propose that the current Section 1282.16(b)(10) be revised to read as follows (modifications are in bold italics):

> (10) Purchases of subordinate lien mortgages (second mortgages) ***except where the principal purpose of the subordinate lien mortgage is to finance repairs, upgrades, or other rehabilitation that benefits the residents.***

Approval for Occupancy

Section 1282.16(b)(12) of the existing regulation provides that certain purchases of mortgages may not be counted for housing goals including:

> (12) Purchases of mortgages where the property, or any units within the property, have not been approved for occupancy.

We understand there are valid policy reasons for assuring that housing goals eligible units are approved for occupancy. However, we believe the current "all or nothing at all" approach should be modified to allow more units to count towards the housing goals. When a unit is not certified for occupancy it is often because it is undergoing rehabilitation, a process which should be encouraged. Furthermore, the loan being acquired often provides the financing for the rehabilitation which is why it is not being completed prior to acquisition.

The impact of this provision is real. By way of example, 89 units of a property were excluded from receiving housing goals credit because one unit had not been approved for occupancy. In a second example, 16 units in a small multifamily property were excluded because a three bedroom unit was in the process of being converted to two units. In a final example, 176 units were excluded because two units did not have certificates of occupancy.

In order to avoid such results, we suggest that the current standard for treatment of unoccupied

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[9] 2010–2011 Enterprise Housing Goals, 75 Fed. Reg. 55892, 55924 (Sep. 14, 2010).

units being used as a model unit or rental office[10] be incorporated into a modified Section 1282.16(b)(12) to read as follows (modifications are in bold italics):

> (12) Purchases of mortgages where the property, or any units within the property, have not been approved for occupancy ***unless the Enterprise has determined that the number of such units is reasonable and minimal considering the size of the multifamily property.***

Such an approach honors the notion that properties where significant numbers of units are not approved for occupancy should not be recognized for housing goals. However, it balances that against situations where only one or two units are not certified for occupancy.

Loan Modifications

Section 1282.16(c)(10) of the existing regulation provides that certain loan modifications may be counted in the same manner as the purchase of a refinancing mortgage for housing goals purposes. However, the provision makes reference to the Making Home Affordable Program, which will be terminated at the end of 2017. The Enterprises have had and will continue to have additional loan modification programs under other names. Accordingly, we recommend that this section be revised to read as follows (modifications are in bold italics):

> (10) *Loan modifications.* An Enterprise's permanent modification, ***in accordance with a loan modification program implemented by the Enterprise*** of a loan that is held in the Enterprise's portfolio or that is in a pool backing a security guaranteed by the Enterprise, shall be treated as a mortgage purchase for purposes of the housing goals. Each such permanent loan modification shall be counted in the same manner as a purchase of a refinancing mortgage.

Manufactured Housing Communities

Manufactured housing is a significant source of affordable housing throughout America. When compared to the cost of site-built housing, in the first six months of 2014 the average sales price of a new single-family manufactured home was approximately $43,000 whereas the median price for a new site-built home, including land, was $288,000.[11] Moreover, manufactured housing continues to not only serve as a source of affordable housing for home buyers, but also for renters. Nationwide, manufactured homes have rents that are just over half of traditional multifamily rents. In 2015 the average monthly rent on a brick and mortar apartment was $1,262 while the average rent on a manufactured home was $690.[12]

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[10] "*Unoccupied units. . . .* A unit in a multifamily property that is unoccupied because it is being used as a model unit or rental office may be counted for purposes of the multifamily housing goal and subgoals only if an Enterprise determines that the number of such units is reasonable and minimal considering the size of the multifamily property." 12 CFR §1282.15(d)(3)

[11] *Manufactured housing consumer finance in the United States*, Consumer Financial Protection Bureau, 20 (Sept. 2014). Available at http://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf.

[12] Source: REIS Inc. for Multifamily brick and mortar rents. Fannie Mae tabulation of 2014 American Community Survey Data for MHC rents. Rents include utilities and are based on all manufactured housing rentals including those outside of MHC.

FHFA has considered, but has not approved, the notion that mortgages on MHC should be considered eligible for housing goals. In the rulemaking for the 2015-2017 housing goals rule, FHFA noted:

> The proposed rule would not change the current treatment of blanket loans on manufactured housing parks under the housing goals. However, FHFA is requesting comment on whether this policy should be changed. FHFA may make a determination in the final rule on whether or not to allow blanket loans on manufactured housing parks to be counted for purposes of the multifamily housing goals. Alternatively, FHFA may instead defer consideration of the appropriate treatment of blanket loans on manufactured housing parks under the housing goals and instead address it as part of the separate, upcoming proposed rulemaking on the duty to serve underserved markets under section 1335 of the Safety and Soundness Act.[13]

Fannie Mae responded to this inquiry, urging that MHC loans be considered eligible for housing goals treatment, commenting that:

> Allowing goals credit for blanket loans on manufactured housing communities is consistent with the Housing and Economic Recovery Act of 2008 ("HERA"). HERA sets very broad parameters for the types of transactions that should be counted for goals purposes, directing only that FHFA consider whether they are substantially equivalent to mortgage purchases and either create a new market or add liquidity to an existing market.[14] Purchases of blanket loans on manufactured housing communities are comparable to purchases of blanket loans on cooperative buildings and condominium projects, which have long been treated as mortgage purchases for purposes of the multifamily housing goals. Indeed, acquisition of a mortgage on a manufactured housing community falls directly within the definition of "mortgage purchase" under the existing rule.[15] Moreover, as FHFA recognizes, financing blanket loans on manufactured housing communities provides liquidity to a segment of the housing market that focuses on low-income and very low-income families, and also supports housing in rural areas, where real estate loans can be difficult to obtain on economical terms.[16] [Footnotes in the original]

In the 2015-2017 rulemaking, further support for inclusion of MHC in housing goals came from a diverse group of commenters, including Freddie Mac, the Mortgage Bankers Association, the Manufactured Housing Institute, the Corporation for Enterprise Development, the National NeighborWorks Association, the National Association of Local Housing Finance Agencies, and ROC USA, LLC.

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[13] 2015-2017 Enterprise Housing Goals: Proposed Rule, 79 Fed. Reg. 54503, 54482 (Sept. 11, 2014).
[14] *See* 12 U.S.C. § 4562(i).
[15] Under 12 CFR § 1282.1(b) "Mortgage purchase" is defined as meaning "a transaction in which an Enterprise bought or otherwise acquired a mortgage or an interest in a mortgage for portfolio, resale, or securitization."
[16] 79 Fed. Reg. at 54503. Fannie Mae Comment Letter on RIN 2590-AA65 Proposed Rule on Enterprise Housing Goals (Oct. 28, 2014).

The final 2015-2017 housing goals rule did not amend the regulation to allow housing goals credit for blanket loans on MHC. The preamble to the rule noted that:

> The final rule does not revise the current regulation to allow blanket loans on manufactured housing communities to count under the multifamily housing goals. It is difficult to accurately determine a manufactured housing unit's affordability under the housing goals because bedroom count information on individual manufactured housing units in the communities is not collected by the Enterprises, and the pad rent alone does not include the full cost of housing for the residents, which includes paying for their unit financing.[17] Therefore, the practical question of how to determine housing costs and affordability, including how to adjust household size for the number of bedrooms in a unit so as to accurately apply the rent estimation alternative, cannot be answered at this time given available data.[18]

However, Fannie Mae <u>is</u> able to secure bedroom and total rent information for a significant portion of the units which it finances at MHC which are owned by the borrower and rented to tenants, paralleling the situation in a multifamily brick and mortar property.[19] Therefore, those units should be eligible for housing goals treatment.

Accordingly, Fannie Mae proposes that current Section 1282.16(c)(5) be amended by revising subparagraph (i) and adding new subparagraphs (iv) and (v) to read as follows (modifications are in bold italics):

> 5) *Cooperative housing, condominiums, **and manufactured housing communities***
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> (i) The purchase of a mortgage on a cooperative housing unit ("a share loan") or a mortgage on a condominium unit***, or a mortgage on a manufactured housing community*** shall be treated as a mortgage purchase for purposes of the housing goals **as provided under this paragraph . . . .**
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[17] It is worth noting that this is the case for cooperatives which has not barred them from being considered for housing goals. Although underwriting comps are used as a proxy for rents (because there is no rent for a cooperative), information is not available on the amount the cooperative's owner is paying for the financing for the unit. Nonetheless, cooperatives are eligible for goals treatment.

[18] 2015-2017 Enterprise Housing Goals: Final Rule, 80 Fed. Reg. 53392, 53429 (Sept. 3, 2015). FHFA went on to indicate that it would "continue to evaluate the treatment of manufactured housing communities in connection with its rulemaking for the Enterprises' Duty to Serve underserved markets under 12 U.S.C. 4565." However, no housing goals determination was made in that context. Moreover, the fact that MHC loan purchases will qualify for Duty to Serve credit should not exclude them from being eligible for housing goals given that, with the exception of MHC loans, a significant number of loans purchased as a Duty to Serve activity are likely to be eligible for housing goals.

[19] Currently, Fannie Mae's Multifamily Selling and Servicing Guide allows up to 35 percent of the units in a Fannie Mae financed MHC to be borrower-owned rentals. (Section 603.01. Manufactured Housing Community Requirements (08/22/16)). At this time, Fannie Mae is not requesting that owner-occupied units in MHC be considered eligible for housing goals.

(iv) The purchase of a blanket mortgage on a manufactured housing community shall be counted in the same manner as a mortgage purchase of a multifamily rental property on non-owner-occupied units where rent and bedroom information is available to determine affordability.

(v) Where an Enterprise purchases both a mortgage on a manufactured housing community and mortgages on individual dwelling units in the same community, both the mortgage on the manufactured housing community and the mortgages on the individual dwelling units shall be treated as mortgage purchases for purposes of the housing goals.

If this or a similar modification is provided in the final housing goals rule, we also suggest that a new definition be added to the final housing goals rule as follows:

Manufactured Housing Community **means a tract of land under unified ownership developed for the purpose of providing individual rental spaces for the placement of manufactured homes within its boundaries and includes residential amenities, utility services, landscaping, roads, and other infrastructure.**

IV. § 1282.21 Housing plans.

The provision of affordable housing presents one of today's thorniest problems for the United States. The nation, States, cities, communities, and a wide variety of other stakeholders struggle with finding workable, sustainable solutions to housing America's families of modest means. One only has to open a paper on any given day to find an ongoing discussion of this serious problem.[20]

These complex problems in the primary housing market reverberate into the secondary market. Additionally, the secondary market has its own set of challenges it must address such as attracting investors and transferring risk. This combination of complexities – indirect and direct – is visited upon the housing goals. As a result, achievement of the housing goals is not always easy.

Under the current regulation, an Enterprise's achievement of its housing goals is assessed on a pass-fail basis. If the Enterprise failed to achieve a goal that was feasible to achieve, then under the statute, the Director of FHFA may require it to submit a housing plan for the Director's approval.[21] In view of the factors discussed above, Fannie Mae believes that the determination of whether a housing plan should be imposed should also consider the qualitative efforts of the Enterprise to achieve the goals in addition to its quantitative accomplishments. We regularly report on such efforts to FHFA which are significant, comprehensive, and creative. Accordingly,

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[20] *See, e.g.*, Aaron C. Davis, *D.C. Mayor Uses Citywide Address to Open New Fronts in Affordable Housing Fight*, WASH. POST. Mar.30, 2017; Laura Kusisto, *Tax Overhaul Threatens Affordable-Housing Deals*, *WALL ST. J.*, Mar. 21, 2017; Charles V. Bagli, *Affordable Housing Program Gives City Tax Break to Developers*, N.Y. TIMES, Apr. 10, 2017; Editorial, *The Case for Affordable Housing in Jefferson Park*, CHI. TRIB., Mar. 29, 2017; and Vernal Coleman, *City Revives Plan to Build Affordable Housing at Fort Lawton*, SEATTLE TIMES, June 19, 2017.

[21] 12 U.S.C. § 4566(c)(1).

we suggest that current Section 1282.21(a) be revised to read as follows (modifications are in bold italics):

> **§ 1282.21**(a) *General.* If the Director determines that an Enterprise has failed, or there is a substantial probability that an Enterprise will fail, to meet any housing goal and that the achievement of the housing goal was or is feasible, the Director may require the Enterprise to submit a housing plan for approval by the Director. **In determining whether to require a housing plan, the Director may consider the qualitative efforts of an Enterprise to achieve any housing goal.**

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Fannie Mae appreciates having the opportunity to comment on the Proposed Rule. If you have any questions or require additional information, please contact the undersigned at 202-274-8660 or jeffery_hayward@fanniemae.com

Sincerely,

Jeffery R. Hayward
Executive Vice President and Head of Multifamily Business

Appendix A:

Comparison of Fannie Mae Model and FHFA Model (2017) Forecasts of Market Performance on Proposed 2018-2020 Enterprise Single-Family Housing Goals

September 2017

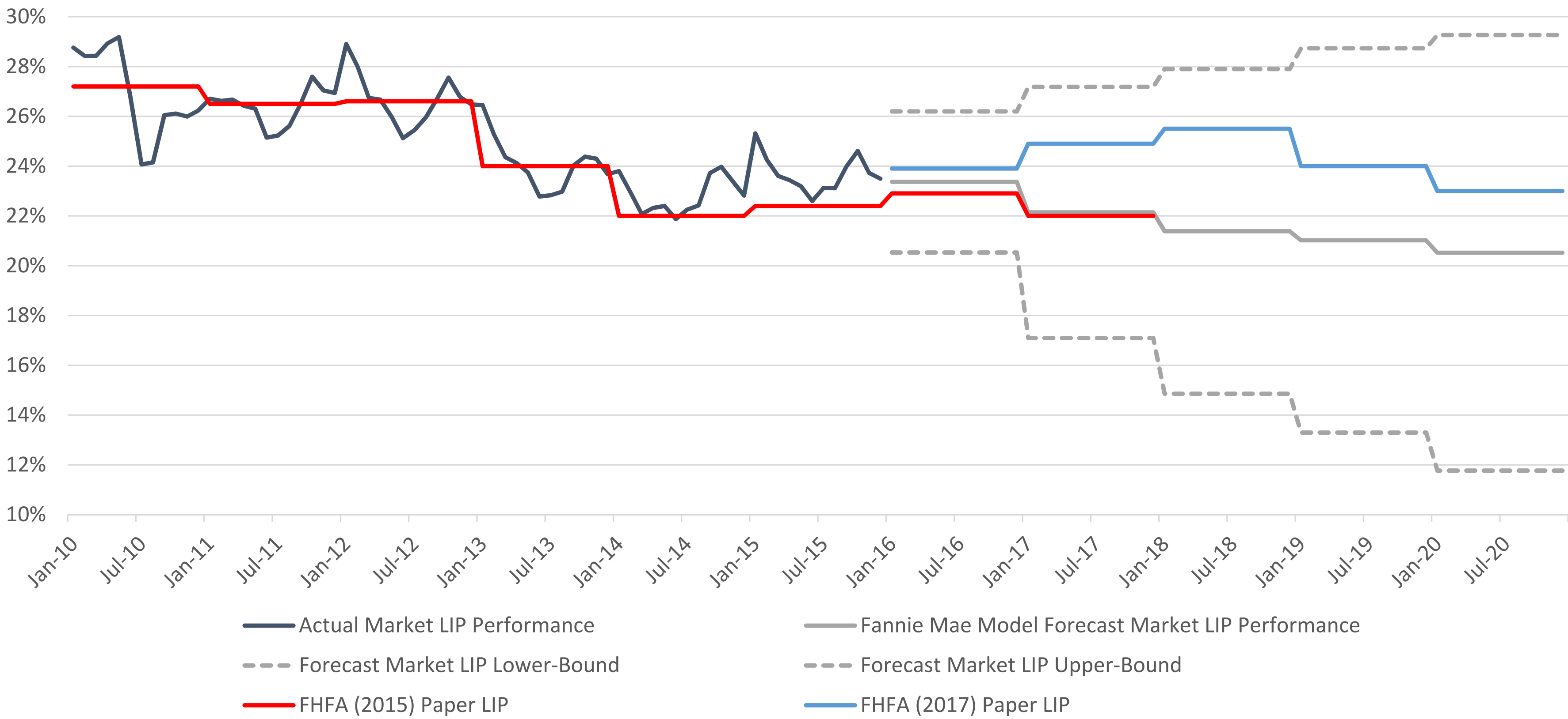
Comparison of FHFA Model and Fannie Mae Model Forecasts for Low-Income Purchase Goal Performance

Model	2016	2017	2018	2019	2020
FHFA (2015) Paper*	22.9	22.0			
	+/-4.2	+/-5.0			
FHFA (2017) Paper	23.9	24.9	25.5	24.0	23.0
	+/-2.5	+/-4.3	+/-5.6	+/-6.6	+/-7.4
Fannie Mae Model Forecast with Jan. 2017 Inputs	23.4	22.1	21.4	21.0	20.5
	+/-2.8	+/-5.0	+/-6.5	+/-7.7	+/-8.8
Fannie Mae Model Forecast with FHFA (2017) Input Values**	23.4	22.2	21.9	20.3	19.0
	+/-2.8	+/-5.0	+/-6.5	+/-7.7	+/-8.8

* FHFA (2015) values obtained from the model using HMDA data from 2004 onwards, shown in FHFA (2015) Table 1.

** This model replaces input variable values in the Fannie Mae Model which are included as inputs in any FHFA Model in FHFA (2017) paper with the forecast values reported for these inputs in the FHFA (2017) paper. The Fannie Mae Model for low-income purchase goal includes: median price of existing homes; Fed. 10-yr. T-Bill yield; and sales of total existing homes. Values for the last two inputs in the previous list were replaced with those in FHFA (2017).

Comparison of FHFA Model and Fannie Mae Model Forecasts for Low-Income Purchase Goal Performance



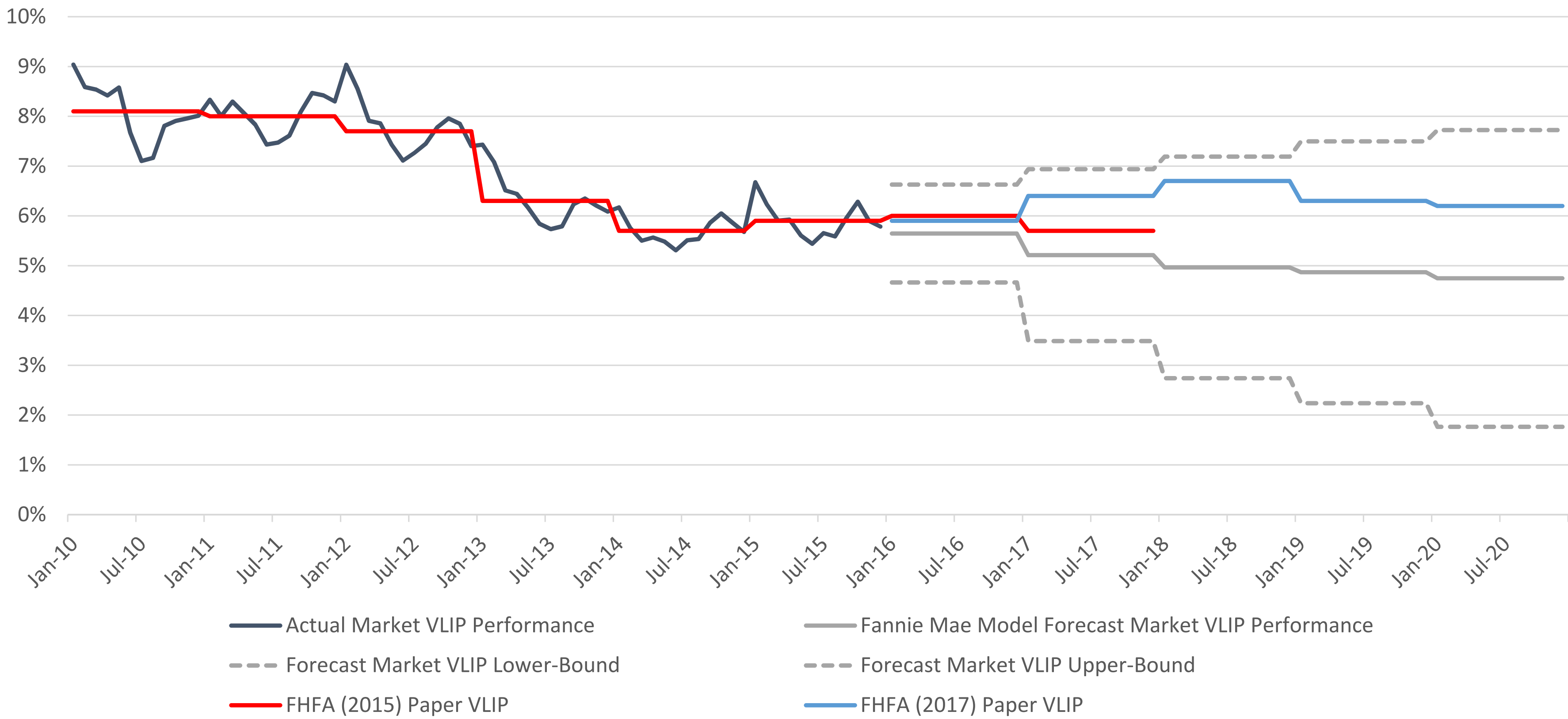
Comparison of FHFA Model and Fannie Mae Model Forecasts for Very Low-Income Purchase Goal Performance

Model	2016	2017	2018	2019	2020
FHFA (2015) Paper*	6.0	5.7			
	+/-3.2	+/-3.8			
FHFA (2017) Paper	5.9	6.4	6.7	6.3	6.2
	+/-0.8	+/-1.4	+/-1.8	+/-2.1	+/-2.4
Fannie Mae Model Forecast with Jan. 2017 Inputs	5.6	5.2	5.0	4.9	4.7
	+/-1.0	+/-1.7	+/-2.2	+/-2.6	+/-3.0
Fannie Mae Model Forecast with FHFA (2017) Input Values**	5.6	5.2	5.1	4.6	4.3
	+/-1.0	+/-1.7	+/-2.2	+/-2.6	+/-3.0

* FHFA (2015) values obtained from the model using HMDA data from 2004 onwards, shown in FHFA (2015) Table 1.

** This model replaces input variable values in the Fannie Mae Model which are included as inputs in any FHFA Model in FHFA (2017) paper with the forecast values reported for these inputs in the FHFA (2017) paper. The Fannie Mae Model for very low-income purchase goal includes: median price of existing homes; Fed. 10-yr. T-Bill yield; sales of total existing homes; and unemployment rate. Values for the last three inputs in the previous list were replaced with those in FHFA (2017).

Comparison of FHFA Model and Fannie Mae Model Forecasts for Very Low-Income Purchase Goal Performance



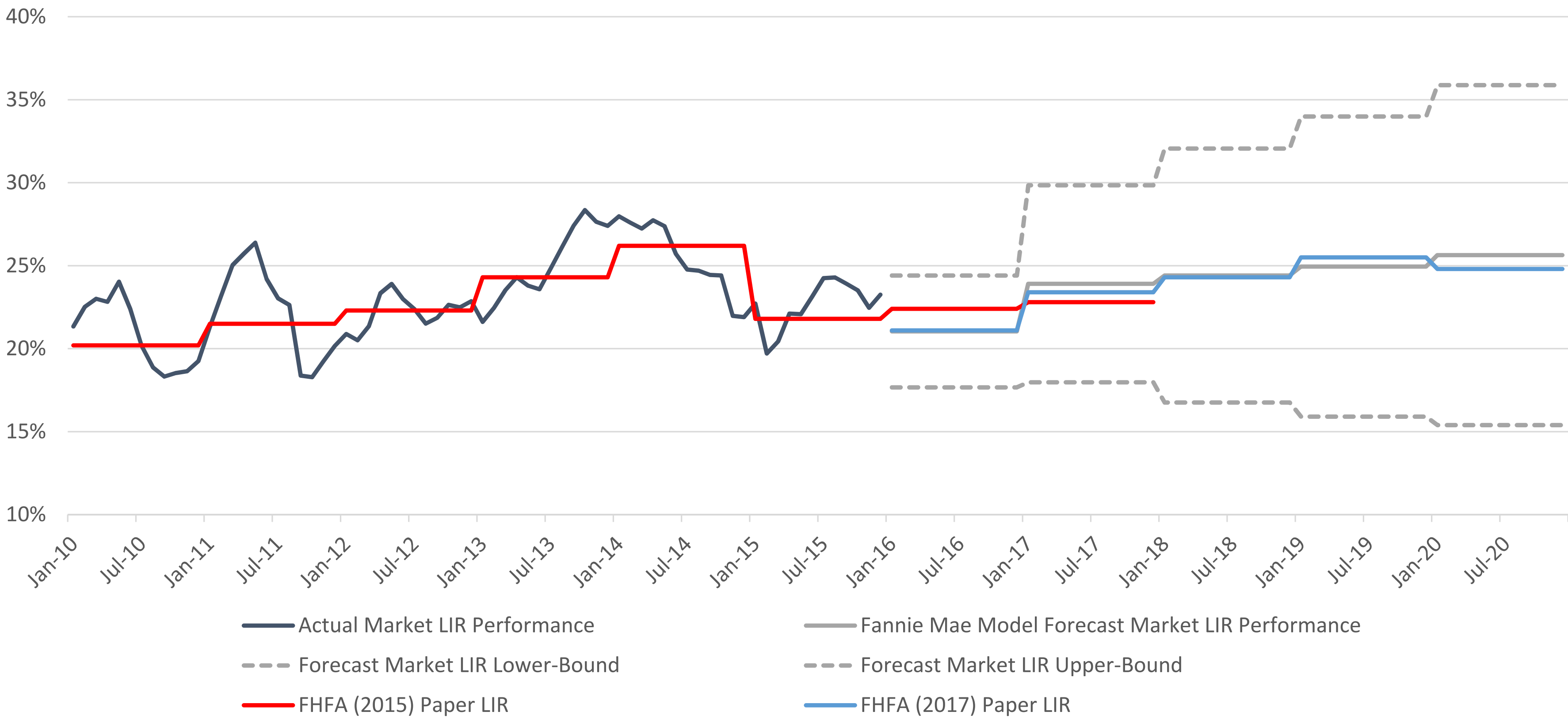
Comparison of FHFA Model and Fannie Mae Model Forecasts for Low-Income Refinance Goal Performance

Model	2016	2017	2018	2019	2020
FHFA (2015) Paper*	22.4	22.8			
	+/-4.7	+/-6.2			
FHFA (2017) Paper	21.1	23.4	24.3	25.5	24.8
	+/-2.9	+/-4.9	+/-6.2	+/-7.3	+/-8.3
Fannie Mae Model Forecast with Jan. 2017 Inputs	21.0	23.9	24.4	24.9	25.6
	+/-3.4	+/-6.0	+/-7.6	+/-9.0	+/-10.2
Fannie Mae Model Forecast with FHFA (2017) Input Values**	21.0	25.8	25.5	28.7	29.8
	+/-3.4	+/-5.9	+/-7.6	+/-9.0	+/-10.2

* FHFA (2015) values obtained from the model using HMDA data from 2004 onwards, shown in FHFA (2015) Table 1.

** This model replaces input variable values in the Fannie Mae Model which are included as inputs in any FHFA Model in FHFA (2017) paper with the forecast values reported for these inputs in the FHFA (2017) paper. The Fannie Mae Model for low-income refinance goal includes: ARM share of total originations; FHFA Purchase Only House Price Index (PO HPI); and Fed. 10-yr. T-Bill yield. Values for the last two inputs in the previous list were replaced with those in FHFA (2017). Note FHFA (2017) details annual change in PO HPI so this was converted into an index and anchored to the last actual value of the PO HPI series.

Comparison of FHFA Model and Fannie Mae Model Forecasts for Low-Income Refinance Goal Performance



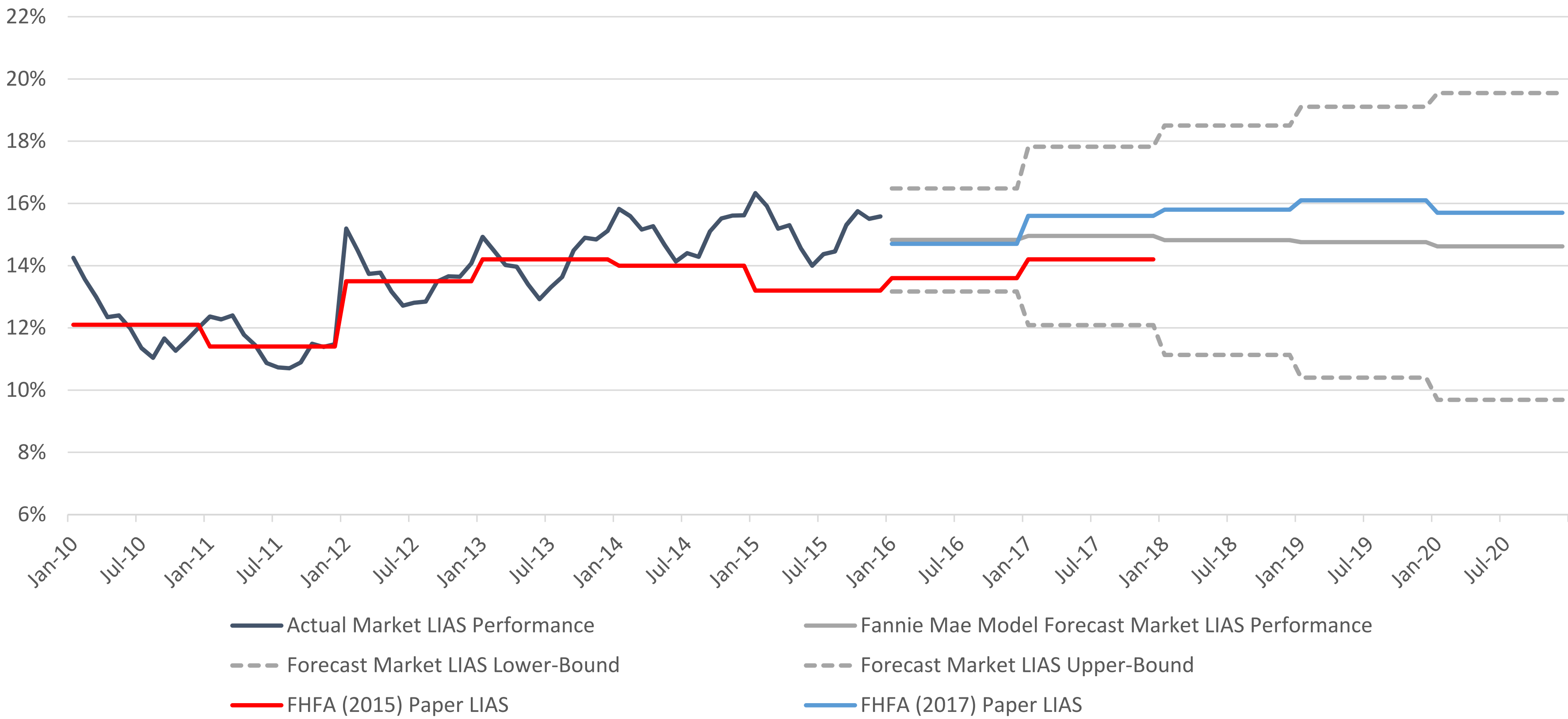
Comparison of FHFA Model and Fannie Mae Model Forecasts for Low-Income Area Purchase Sub-Goal Performance

Model	2016	2017	2018	2019	2020
FHFA (2015) Paper*	13.6	14.2			
	+/-2.8	+/-3.6			
FHFA (2017) Paper	14.7	15.6	15.8	16.1	15.7
	+/-1.2	+/-2.0	+/-2.6	+/-3.1	+/- 3.5
Fannie Mae Model Forecast with Jan. 2017 Inputs	14.8	15.0	14.8	14.8	14.6
	+/-1.7	+/-2.9	+/-3.7	+/-4.4	+/-4.9
Fannie Mae Model Forecast with FHFA (2017) Input Values**	14.8	15.0	14.9	15.2	15.2
	+/-1.7	+/-2.9	+/-3.7	+/-4.4	+/-4.9

* FHFA (2015) values obtained from the model using HMDA data from 2004 onwards, shown in FHFA (2015) Table 1.

** This model replaces input variable values in the Fannie Mae Model which are included as inputs in any FHFA Model in FHFA (2017) paper with the forecast values reported for these inputs in the FHFA (2017) paper. The Fannie Mae Model for low-income area purchase sub-goal includes: median price of existing homes; FRM 30-yr interest rate; and unemployment rate. Values for the last two inputs in the previous list were replaced with those in FHFA (2017).

Comparison of FHFA Model and Fannie Mae Model Forecasts for Low-Income Area Purchase Sub-Goal Performance



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Schultz, Jay. 2015. “The Size of the Affordable Mortgage Market: 2015-2017 Enterprise Single-Family Housing Goals.” URL: https://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/Market-Estimates-2015-2017.pdf

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Lam, Ken, Jay Schultz, and Padmasini Raman. 2017. “The Size of the Affordable Mortgage Market: 2018-2020 Enterprise Single-Family Housing Goals.” URL: https://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/Market-Estimates_2018-2020.pdf