December 5, 2022

Marcea Barringer
Supervisory Policy Analyst
Attention: Duty to Serve 2022 RFI
Federal Housing Finance Agency
Eighth Floor, 400 Seventh Street, S.W.
Washington, D.C. 20219

Re: Input on Fannie Mae and Freddie Mac 2022 Duty to Serve Plan Modifications

Dear Marcea Barringer,

The undersigned members of the Underserved Mortgage Market Coalition appreciate the opportunity to comment on the 2022 Duty to Serve (DTS) Plan Modifications proposed by Fannie Mae and Freddie Mac. We recognize the importance of the GSEs in setting the standards for the United States mortgage market and conclude that Duty to Serve is essential to helping the GSEs' achieve their mission responsibilities. In response to this RFI, the coalition held internal meetings of our four working groups with our members in all three DTS markets to identify what we find critically important for FHFA to consider and what modifications are missing from the proposals. This letter outlines the priorities we find of utmost importance to consider when you evaluate the GSEs' proposed modifications.

I. Manufactured Housing

A. Units Titled as Real Property

We appreciate Freddie Mac's incremental adjustment of single-family purchases of manufactured homes titled as real property in 2022 (from 5,000-5,800 to 8,000-8,500). Further, we appreciate including 2021 loan purchases in calculating the new baseline for single-family purchases of manufactured homes titled as real property. This change is much closer to our blueprint recommendation (2020 as the baseline), published on January 20th, 2022. However, we still consider Freddie Mac's loan purchase target insufficient to shift the market to higher quality homes titled as real property. If Freddie Mac intends to uphold its promise to create a targeted approach to educate and build relationships with high-capacity housing developers, there is no reason that it cannot increase its loan purchase targets. Based on Freddie Mac's proposed 5-year average baseline of 6,247 loans, we recommend the purchase targets for 2023 and 2024 increase to:

- 2023 – 7,808-unit loans (25% above the proposed baseline); and
- 2024 – 9,370-unit loans (50% above the proposed baseline).

Further, we recommend that Fannie Mae change its single-family purchases of manufactured homes titled as real property to include the 2021 loan purchases as its baseline and adjust using the UMMC's proposed percentage increases to Freddie Mac's loan purchases.

B. Units Titled as Personal Property

Our coalition sees the value in tenant pad lease protections and is encouraged by Freddie Mac's emphasis on protecting consumers. Freddie Mac noted in its past plans that it will attempt to create a personal property loan pilot program, which we commend. We recommend that Freddie Mac consider launching this program in communities with tenant site lease protections (TSLPs), or in those that have the same or better protections, such as ROCs or those run by nonprofits. Creating the pilot in an area with TSLP protections would allow Freddie Mac to begin testing the viability of its personal property loans on a group of borrowers that should have reduced default risk and allow Freddie Mac to service an important segment of MH owners. Supporting a personal property pilot in a protected manufactured housing community may also improve the uptake of Freddie Mac MHC loans by community buyers or owners if access to credit for homeowners or buyers improves the vitality of the community.

C. Manufactured Housing Community Loans

We suggest that Fannie Mae set its loan purchase target for MHCs with TSLPs based on the overall number of MHC properties or pads, rather than using a dollar amount to set the loan purchase target. Using a dollar amount could incentivize Fannie Mae to pursue transactions based on the mortgage amount, thus inadvertently leading to ignoring lower cost manufactured housing communities. Fannie Mae should consider a similar model to Freddie Mac, setting its loan purchase target for MHCs with TSLPs based on the number of MHC properties or overall pads.

Fannie Mae's proposed change to eliminate subgroups in favor of committing to a broader MHC loan purchase goal, including owned by government entities, nonprofit organizations and residents is another promising modification. As indicated previously for the multifamily preservation market, we much prefer commitment to a broader target, over a series of rationales for why a GSE cannot reach various submarkets. We urge Fannie Mae to provide public data on the breakdown of all MHC purchases. Data disclosure will help stakeholders better understand how many transactions occurred for MHCs owned by various mission qualifying types versus non-mission MHC loan purchases. We also encourage Fannie Mae to further elaborate on activities included in the proposed ROC pilot.

II. Rural

A. Targeted Equity Investments

The UMMC is pleased to see targeted equity investments to native CDFIs listed in Fannie Mae's modifications. We recognize the impact equity investments could have on native land and commend Fannie Mae for including this option. Targeted investment in a Native CDFI, however, is only one mechanism to expand mortgage availability on Native land. Please see below for other ways to reach Native CDFIs.

We encourage Fannie Mae and Freddie Mac to explore expanding equity investment beyond native CDFIs. As discussed in our recent meeting on November 8th with Director Thompson, we conclude that FHFA should permit targeted equity investments as part of Duty to Serve and the Equitable Housing Finance plans. The DTS statutory language clearly states that the GSEs are allowed to make equity investments under their charters while also suggesting an intent to limit those investments to a very specific and constrained set of circumstances that support the GSEs' requirement to reach underserved markets.

We propose FHFA adopt two guiding principles for TEIs. First, there should be a distinct mission return in a market that is otherwise difficult for the GSEs to penetrate, whether because the primary market is originating an insufficient volume of loans for the GSEs to engage or because of other market conditions. Second, the TEI should be clearly distinguishable from a grant. While a TEI need not produce any financial return to the Enterprise beyond the principal, the investee should repay the principal, except when a TEI is used as credit enhancement and an associated loan product development pilot uses some or all the TEI to cover credit losses sustained in the process.

B. CDFI Access

CDFIs have vast experience with every DTS market and providing capital could lead to increased liquidity in locations the GSEs previously could not reach. The plans should be modified to create loan products targeted to CDFIs that include more risk flexibility, similar to the variances granted to state housing finance agencies. We also urge the GSEs to provide more and better guidance that would ease the process for CDFIs to rely on approved seller servicers, including Fahe and cdcb, to serve as aggregators for other CDFIs.

Given the investment in establishing a cohort and providing technical assistance to build capacity to access the secondary mortgage market (per Fannie Mae's current year activities), we recommend that Fannie Mae establish targets for loan purchases for native CDFIs, if not all CDFIs operating in rural markets. Setting loan purchase targets for Native CDFIs would strengthen the planned set of activities, which currently includes a 2023 market study of future feasibility and has no 2024 activity planned. Moreover, completing the whole loan conduit for the cohort—including delivery to Fannie Mae—will allow networks of Native lenders to adopt (and adapt) the successful practices as knowledge disseminates through the networks. Encouraging scalability across tribes through networks is how real progress and magnitude are achieved.

C. Section 515

We oppose Freddie Mac's proposal to modify its USDA section 515 loan purchase goals for 2022 to 2024. As we commented after the rejection of the initial three-year duty to serve plans in January, section 515 is essential to rural investment. In its updated plan, Freddie Mac added a very low purchase goal for section 515 properties (one loan in 2022, two loans in 2023, and four loans in 2024). After years of work to reach a subordination agreement with USDA, Freddie Mac needs to commit to preserving the 515 portfolios, not met through existing funding. Housing Assistance Council estimates over 900 Section 515 properties and 21,000 units were lost from the program between 2016 and 2021[1]. Removing this purchase goal will further insufficiently serve the much-needed DTS market.

Rather, the GSEs should detail the concrete steps taken to meet their purchase targets and the barriers that remain to be overcome should they fall short in any given period. It would be far better to continue to work towards the target even if it is not met than to eliminate the activity from consideration. Indeed, the DTS evaluation guidance explicitly acknowledges this scenario and allows the awarding of partial credit scores.

III. Multifamily Affordable Housing Preservation

We support Fannie Mae's proposed modification to track and report RAD loan purchases based on unit count versus loan amount. We find that units are in most cases a better measurement of activity and that Fannie Mae should provide data on unit counts and the number of loans purchased. Having access to both data points will provide stakeholders with more information about what parts of the market are adequately served and those that are not.

The RAD analysis is concentrated on component one public housing conversions, although, it should also include component two conversion opportunities for legacy HUD-financed properties. Component two properties are eligible for RAD and should be included in the modeling of market opportunity. RAD component two portfolios include the Section 8 Moderate Rehabilitation, McKinney Vento Moderate Rehabilitation Single Room Occupancy, and Section 202 Housing for the Elderly Project Rental Assistance Contracts. Fannie should update its RAD goal to reflect loan purchase activities for all RAD components. HUD recently received RAD conversion authority for the Section 811 Housing for Persons with Disabilities portfolio and will need to update its RAD Notice before these properties can convert to Section 8. Fannie should include Section 811 properties market opportunities in future years, after HUD has released an updated Notice.

[1] Housing Assistance Council, "Rural America is Losing Affordable Rental Housing at an Alarming Rate: An Update on Maturing Mortgages in USDA's Section 515 Rural Rental Housing Program," 2022, https://ruralhome.org/update-maturing-mortgages-usda-section-515-rural-rental-housing-program/

IV. Single Family Affordable Housing Preservation

A. Adjusting to Higher Interest Rates

Given the scarcity of homes available to first-time homebuyers, and in the context of the nation's severe housing supply crisis, we recognize the importance of preserving existing homeownership units that are affordable to LMI households. In recent meetings with our coalition, GSE staff acknowledged that inflation and market changes are making it increasingly difficult to reach their DTS objectives, in particular loan purchase targets in the single-family underserved markets. We recommend that both GSEs adjust their single-family affordable housing preservation plan modifications. FHFA must hold the GSEs accountable for making needed adjustments related to current market conditions to advance DTS goals now that reaching underserved markets is more challenging.

B. Shared Equity

We support both Fannie Mae and Freddie Mac including plan modifications that revise their Objectives and Activities related to the Model Deed Restriction (MDR) for shared equity homeownership so that the MDR results in reduced lender burden, increased access to mortgages for shared equity borrowers, and increased liquidity. Both GSEs were involved in the development of the MDR with the objective of creating a legal document template for shared equity programs that complies with the Selling Guides so lenders could limit the complexity of the existing guides. However, both GSEs have introduced Selling Guide requirements that contradict terms in the MDR or plan to overlay amendments, which is highly confusing to shared equity programs, borrowers, and lenders. Likewise, the GSEs plan to introduce added underwriting requirements for lenders originating loans to shared equity borrowers in deed-restricted programs, increasing lender burden and a reducing clarity on what documentation is needed to comply with the Guides. We urge the GSEs to change their Objectives and Activities related to shared equity homeownership, so that the outcomes advance—rather than run counter to—the mandate of DTS.

C. Distressed Properties

Fannie Mae and Freddie Mac's disposition of REO properties can be an important source of steady housing supply, especially for first-time homebuyers and other owner occupants who face stiff competition from institutional investors and all-cash buyers. We commend both GSEs for having active REO disposition programs that facilitate the sale of REO to owner occupants and mission partners. While some GSE REO disposition information is reported for specific markets, we recommend that additional data be reported nationally to meaningfully evaluate overall activity and mission outcomes. FHFA's *Foreclosure Prevention and Refinance Reports* provide aggregate totals of the GSEs' single family REO acquisitions and dispositions. We urge the GSEs to provide more data and transparency on these activities. This should include the disposition channels used, volume by channel, asset locations, who purchases the assets (e.g., institutional investors, owner occupants, nonprofits, etc.), the level of rehab if any, and whether each sale preserves the asset as an affordable homeownership opportunity. We also ask FHFA to reactivate its REO Asset Disposition webpage and to use it to share public information about GSE REO disposition activities, accomplishments, and outcomes.

D. Energy Efficiency

Although we recognize Freddie Mac and Fannie Mae took steps to prioritize energy and water efficiency objectives in its original DTS plans, we were disappointed to note that more aggressive energy efficiency goals were not included in Fannie and Freddie's revised DTS plans nor mentioned in Freddie Mac's plan modification. Energy burdens across the market remain significant and increasing loans purchased in high energy burdened areas can aid in reducing financial impacts felt by many low-income individuals, as fossil fuel prices continue to rise. We still encourage Fannie Mae and Freddie Mac to increase loan purchase goals by 2% in the coming year to set out on a trajectory to meet our recommended 10% increase in loan purchase goals by 2024.

The Inflation Reduction Act of 2022, which makes the single largest investment in climate and energy in American history, provides an opportunity for increased outreach activities and loan purchases for Duty to Serve that can be added to years 2023 and 2024. Fannie Mae and Freddie Mac should develop a plan to reach DTS-eligible homeowners at time of purchase or refinance to ensure they acquire, as needed, qualified energy efficiency equipment and secure significant rebate and credit incentives. As the full cost of upgrades, including additional cost-effective measures identified by home energy audits, may still need to be covered, those could be financed in the mortgage and qualify for loan purchase credit. Fannie Mae and Freddie Mac could finance hundreds of additional Duty to Serve eligible mortgages as well as undertake impactful outreach activities to ensure opportunities for energy efficiency improvements are maximized through this historic legislation.

Conclusion

The proposed Fannie Mae and Freddie DTS plan modifications offer some encouraging and ambitious objectives previously unaddressed in housing finance. Yet, as summarized here, there are a number of changes which FHFA should require to the proposed plan modifications.

In addition, there are a number of critical ways that FHFA needs to use its regulatory and conservatorship authorities to more fully incentivize a stronger secondary mortgage market. Policy recommendations we have consistently suggested FHFA embrace would do a great deal more to address underserved market and affordable housing needs, in a manner that is also entirely consistent with FHFA's safety and soundness mission. Among others, these include:

1. Clearly authorizing and encouraging Targeted Equity Investments in underserved markets;

2. Disclosing all of the DTS ratings and impact scores FHFA assigns to each objective on a scale of zero to 50, as well as any narrative that would help us understand how FHFA arrived at that score.

Thank you for considering our views.

Sincerely,

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