NCSHA
National Council of
State Housing Agencies

July 16, 2021

Ms. Marcea Barringer
Senior Policy Analyst
Attention: Duty to Serve 2022-2024 RFI
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street SW
Washington D.C. 20219

RE: Fannie Mae and Freddie Mac Proposed 2022-2024 Duty to Serve Plans

Dear Ms. Barringer,

On behalf of the state Housing Finance Agencies (HFAs) it represents, the National Council of State Housing Agencies (NCSHA)[1] appreciates the opportunity to respond to the Federal Housing Finance Agency's (FHFA) May 18 Request for Input (RFI) on Fannie Mae's and Freddie Mac's Underserved Markets Plans for years 2022-2024. NCSHA thanks FHFA and the Enterprises for their work on the Duty to Serve program and the new proposed plans.

We believe the plans fall short of the potential the Enterprises can and should realize in advancing affordable housing in the three underserved markets targeted by the Duty to Serve program. We recommend several changes in both FHFA policy and the Enterprises' plans to help the Duty to Serve program achieve that potential.

In summary, these changes include improving the pricing and terms of HFA preferred products to make them at least as favorable as they were before the Enterprises made changes that reduced their effectiveness and eliminating the recent amendments to the Preferred Stock Purchase Agreements (PSPAs) imposing volume limits on the types of loans that are key to accomplishing the Enterprises' Duty to Serve plans. We also recommend several specific changes in each underserved market area that are described below.

[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

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As state-chartered public-mission entities dedicated to a broad range of affordable housing finance needs in urban, rural, and suburban areas, HFAs are natural partners for Fannie Mae and Freddie Mac as they work to achieve their Duty to Serve obligations. HFAs are deeply engaged in each of the Duty to Serve underserved market areas.

HFAs administer a number of key affordable housing programs that provide the tools necessary to address Duty to Serve concerns, including the Low Income Housing Tax Credit, Housing Bonds, the HOME Investment Partnerships program, and Section 8 rental assistance. They have the expertise, partnerships, and know-how vital to leveraging the Enterprises' efforts to maximize their Duty to Serve impact.

Though Fannie Mae and Freddie Mac are currently working with HFAs to execute their Duty to Serve plans, we urge them to do more and make these partnerships a formal part of their Duty to Serve plans.

Cross-Cutting Recommendations

We have a number of recommendations for both FHFA and the Enterprises that apply to all three Duty to Serve underserved market areas.

The first involves restoring the effectiveness and breadth of preferred single-family loan programs the Enterprises have offered HFAs in the past. Attractive pricing and terms led to strong growth in HFA use of these preferred products. However, much of this progress has been reversed because the Enterprises withdrew those pricing advantages and excluded moderate-income borrowers. We urge the Enterprises to restore and expand the pricing and term advantages for their HFA products, at least for moderate-income borrowers living in rural areas.

Another major cross-cutting recommendation also relates to affordable single-family loan production. We urge FHFA to work with the Treasury Department to reverse the provisions of the GSEs' preferred stock purchase agreements that limit the purchases of supposedly "high-risk" loans. The characteristics these provisions target—LTVs over 90 percent, DTIs over 45 percent, and FICO scores below 680—are exactly those flexibilities necessary to serve many people in rural communities, provide mortgages to families financing manufactured housing loans, and support single-family lending that can help preserve affordable homes.

We also recommend that FHFA and the Enterprises focus on racial and social equity concerns in all their Duty to Serve activities. The imperative to address the wide and pernicious gaps in homeownership, wealth, and access to credit and affordable housing between people of color and their communities and others makes this focus vital. These gaps contribute to serious disparities in health, education, income, access to jobs, and other important essentials of daily living.

As FHFA reviews and Fannie Mae and Freddie Mac continue working on their Duty to Serve plans, we encourage the Enterprises to continue to seek out opportunities to collaborate with HFAs and to continue the outreach to and communication with HFAs and NCSHA on expanding their partnerships with HFAs.

In fact, given how the Enterprises' plans include activities and objectives to partner with some specific groups, we recommend they add an activity and define objectives for working specifically with HFAs in each of the underserved market areas.

Other cross-cutting Duty to Serve plan changes we recommend include:

- Revise the GSEs' automated underwriting systems to eliminate the ways in which they downgrade HFA (and potentially other) loans with down payment assistance by apparently requiring borrowers to have unnecessarily high credit scores.

- Unlock access to credit for thin credit file and other borrowers without high credit scores by leaning into credit scoring, building, and reporting alternatives.

- Provide liquidity for home improvement and energy efficiency financing to address the growing needs of our old and aging housing stock. This is a particular concern for many people in rural, manufactured, and at-risk housing.

- Allow product innovation by eliminating any unnecessary limits on the Enterprises' ability to create and implement new products.

Rural Housing

With respect to the rural housing areas service obligation specifically, we urge the Enterprises to amend their plans to increase their single-family loan purchases and rental activity in general and high-needs rural regions.

We support the Enterprises' intent to increase the amount of their Housing Credit investments in rural areas and encourage them to do even more. Increased Enterprise Credit investments would be particularly helpful as the market continues to adjust to recent tax changes, economic shifts, and other equity market factors, including specific challenges associated with raising equity for rural project sponsors.

The Duty to Serve rule allows Fannie Mae and Freddie Mac to receive credit for the purchase of tax-exempt Housing Bonds, both multifamily bonds and single-family Mortgage Revenue Bonds (MRBs). We urge FHFA to allow Fannie Mae and Freddie Mac to purchase Housing Bonds and recommend the Enterprises create activities and propose objectives for single-family and multifamily bond purchases.

We encourage both Enterprises to set more ambitious objectives for loan purchases and activities in support of preserving Section 515 rural rental housing. Maturing mortgages and other circumstances make preserving this stock very important, and the difficulty of securing such preservation makes the Enterprises concerted effort vital.

Preservation

In general, we believe the Enterprises can and should do substantially more than their preservation plans indicate they intend to do. NCSHA particularly supports the Enterprises' focus on preserving Section 8 and USDA rural properties and promoting energy efficiency.

We think the Enterprises should also focus on long-term affordability and ensuring that their debt products and investments require commitments of continued affordability for as long a period as possible. In awarding Duty to Serve credit for preservation, especially lending for acquisition deals, FHFA should require that the Enterprises' activities provide affordability for the longest possible time, perhaps by providing more Duty to Serve credit for units or properties with commitments for longer affordability periods.

In addition, FHFA could direct the Enterprises to provide evidence that a property is at risk, based on local market conditions and property documents, in order to receive the greatest Duty to Serve credit for the debt or investment.

We urge FHFA and the Enterprises to recognize and act on the fact that the Housing Credit is the primary source of capital available for preserving affordable rental housing. Because of the urgent need to preserve affordable rental housing and the vital role the Housing Credit plays in making preservation feasible, we urge FHFA to allow the Enterprises to receive Duty to Serve credit for Housing Credit equity investments in affordable housing preservation transactions.

We further recommend that Fannie Mae and Freddie Mac include in their plans robust commitments to make significant Housing Credit equity investments in preservation throughout the country, not just in rural areas. There are significant preservation needs in virtually every housing market.

Housing Bonds are also a valuable tool for preservation financing, so we encourage FHFA to allow the Enterprises to purchase tax-exempt Housing Bonds and to provide Duty to Serve Credit for bond purchases or guarantees that support preservation.

We urge Fannie Mae and Freddie Mac to partner actively with HFAs in their lending activities, working with them closely to offer the best possible lending terms, including continuing to investigate ways to streamline and increase affordable housing lending by delegating underwriting and servicing authority to qualified HFAs. While efforts to create such lending programs have been challenging and failed to succeed thus far, we still believe there is both the need to make them happen and the potential for them to succeed. Bond purchases and guarantees could help even if creating broader delegated underwriting and servicing programs continues to be challenging, particularly for small rental properties and other markets to which the Enterprises are focused on improving their service.

Recognizing that many Housing Credit properties are reaching points at which they could exit the affordable housing inventory at year 15, year 30, or through other exit paths, we urge the Enterprises to prioritize preserving this valuable affordable housing stock.

Manufactured Housing

State HFAs recognize that manufactured housing can and should play an increasing role in addressing our nation's affordable housing crisis. In general, manufactured housing is an area where the Enterprises could use their unique capabilities and market-making influence to make a significant difference.

Manufactured housing is naturally occurring affordable housing that often offers lower income families affordable long-term housing with no—or minimal—subsidy. Manufactured housing provides an affordable alternative to many families with lower average incomes than other buyers and who purchase homes priced below what is available in the stick-built market.

However, manufactured housing can still pose affordability challenges for some potential homebuyers and renters. Of particular concern are high interest loans for homebuyers without other loan product options and high and escalating rents in manufactured home communities without affordability restrictions and supports. In addition, poor heating and cooling can make some manufactured homes unsafe and unaffordable.

HFAs are natural partners for Fannie Mae and Freddie Mac as they work on their Duty to Serve plans. Twenty-eight state HFAs reported in NCSHA's Annual Survey that they directly originate or purchase manufactured housing loans. Several HFAs have significantly expanded their manufactured housing activities in recent years. Some directly originate loans for manufactured housing titled as real estate.

Some of these HFAs offer homebuyers affordable manufactured housing financing options through special partnerships with the Enterprises driven by their Duty-To-Serve market plans. Both Fannie Mae and Freddie Mac are currently working with many HFAs to meet their Duty to Serve obligations and trying to increase the number of and activity in these partnerships. We encourage the Enterprises to keep seeking out opportunities to collaborate with HFAs and to continue their regular communication with NCSHA and its members.

We appreciate these efforts but believe the Enterprises can and should do more to support manufactured housing than the proposals they have put forward in their market plans. We urge the Enterprises to increase liquidity for manufactured housing through higher loan purchase goals for manufactured housing loans, increased industry outreach, product variances, policy changes, energy-efficiency and retrofit financing products, and manufactured housing community loan purchases.

We also encourage the Enterprises to develop and ramp up chattel loan products that help create healthy channels for prudent, sustainable, and consumer-oriented chattel loans.

Much manufactured housing is located in resident-owned and privately owned parks and communities. The Enterprises should also continue working with HFAs and others to expand credit for affordable manufactured housing communities and to make sure they stay affordable.

The Enterprises can and should prudently lend more to homebuyers and existing homeowners in these parks and communities. But the Enterprises' manufactured home community engagement must prioritize long-term affordability and racial and social equity. Providing liquidity without safeguards could hurt people the Duty to Serve program is intended to help.

Several HFAs have suggested the Enterprises increase promotion of their manufactured housing products to borrowers, lenders, and Realtors, perhaps even offering financial incentives to lenders and buyers to expand interest in these programs. We also recommend FHFA and the Enterprises inspect their lending guidelines to identify credit, income, asset, and home design criteria changes that could encourage more manufactured housing lending.

We also ask FHFA to consider allowing the Enterprises to receive Duty to Serve credit for Housing Credit investments that support development and acquisition of manufactured housing communities for affordable housing purposes. NCSHA also urges FHFA to consider how it could amend the Duty to Serve requirements for Housing Bond purchases to give the Enterprises and HFAs more flexibility in using those proceeds to support manufactured housing activity—and to encourage the Enterprises to include such activity in their underserved markets plans.

Manufactured housing offers a great resource for people who need affordable housing and good business for the Enterprises, but is woefully short of its potential. We hope the Enterprises, FHFA, HFAs, and others can close that gap and realize more of that potential in the coming months and years.

Thank you for your consideration.

Sincerely,

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives