



July 16, 2021

Ms. Marcea Barringer
Senior Policy Analyst
Attention: Duty to Serve 2022-2024 RFI
Federal Housing Finance Agency
400 7th Street SW, 8th floor
Washington, DC 20219

RE: Request for Information -- Duty to Serve Underserved Markets Plans 2022-2024

Dear Ms. Barringer:

On behalf of NeighborWorks America I want to thank the Federal Housing Finance Agency (FHFA) for the opportunity to provide comments regarding the draft Underserved Markets Plans proposed by Fannie Mae and Freddie Mac (collectively, the “GSEs”).

Please note that these comments have not been submitted to or approved by NeighborWorks America’s board. These comments reflect the view of NeighborWorks America management and do not necessarily represent the views of its board members, either collectively or as individuals. These comments have been informed by conversations with a number of members of NeighborWorks America’s network of nearly 250 local and regional nonprofit-affiliated NeighborWorks organizations.

Our mission at NeighborWorks America is to create opportunities for people to live in affordable homes, improve their lives and strengthen their communities. Through their previous Underserved Markets Plans, the GSEs have increased their investment in this work, bringing capital and liquidity to some of the places where it is most needed. However, there is more to be done, and NeighborWorks is concerned that the 2022-2024 Underserved Markets Plans, as currently proposed, do not fully live up to the mission of Duty to Serve. The GSEs are charged with taking on a leadership role to facilitate the secondary market, and that will require bolder goals than those presented. Access to credit remains a challenge in all three of the underserved markets covered under the Duty to Serve regulations, and more substantial measures than those contained in the draft plans will be needed to meet the needs of these underserved populations. We encourage FHFA to evaluate how pathways to facilitate improvements and work with the GSEs to strengthen these plans to define strategies to dismantle remaining obstacles and set more aggressive loan purchase targets.

NeighborWorks organizations are a driving force in creating affordable homeownership and rental housing opportunities in communities across the United States. In FY 2020, NeighborWorks organizations assisted 438,600 families with their housing needs, including creating 23,400 new homeowners, owning and managing 179,900 units of affordable rental housing, and providing counseling and education to 149,185 families buying and/or preserving a home. The NeighborWorks network also provides an extensive array of other services in their communities through resident engagement, economic development, workforce development, education, and health care programs and partnerships.

NeighborWorks organizations serve all three of the underserved markets covered in the Duty to Serve regulations. In FY 2020, two-thirds of all NeighborWorks organizations served rural Americans. Manufactured housing is not only included in the work of NeighborWorks organizations, but NeighborWorks also supports two manufactured housing social enterprises, Next Step, a company dedicated to building high quality, Energy Star-rated factory built housing, and ROC USA, a national initiative to transform privately owned mobile home parks into resident-owned communities. Additionally, NeighborWorks organizations preserve thousands of affordable rental housing units each year.

General

To maximize the impact of the Duty to Serve, each of the Underserved Markets Plans should build on the successes of the previous planning cycles. Much of the GSEs' early work was focused on breaking down systemic barriers and building institutional pathways to facilitate increased activity in these underserved markets. Now, in the second cycle, these foundational efforts should begin to bear fruit. Unfortunately, the proposed targets do not reflect this expected growth trajectory, and in some cases are actually a retrenchment.

NeighborWorks urges FHFA to require the GSEs to provide meaningful justification for any goal that does not, at least, meet the standard set by the final year of the previous plan. Early stage investment through the first cycle of Duty to Serve activities was intended to seed positive growth curves and lead to impact at scale—anything less would be insufficient. Where obstacles to growth remain, the GSEs must be required to set intentional goals to address these barriers, setting the stage for future progress. By requiring the GSEs to include narrative explicitly demonstrating how plan goals relate to the accomplishments of the previous cycle, FHFA can create meaningful transparency.

FHFA should take a holistic approach to ensuring that the GSEs are able to serve underserved markets, making sure that other rules do not pose unintended obstacles to this work. For example, FHFA should reevaluate its capital requirements for loans purchased from underserved markets and repeal excessive loan level price adjustments for these loans. By setting capital requirements that are

out of line with the associated risk, FHFA has effectively penalized these activities. The GSEs should also be encouraged to conduct pilots, which are a critical tool for reaching markets where the GSEs have not previously been active. As proposed, the pending New Products Rule limiting the GSEs' ability to engage in such efforts would create a major impediment to progress. And finally, FHFA must revise its legal interpretation of the statute to not only allow equity investments, but to make them an expectation for the GSEs in the targeted markets. In order to truly move the needle on investment in underserved markets, the GSEs must be armed with the full suite of tools. These actions must be taken quickly in order to remove these exogenous barriers before the 2022-2024 plans are finalized.

NeighborWorks agrees that the GSEs should focus their activities around their strengths in the secondary market, utilizing partnerships with other organizations to amplify those strengths and meet needs that are outside of their general scope. In that manner, NeighborWorks and other national and regional intermediaries can serve in a connecting role, helping the GSEs get to scale by pulling together lenders and cohorts around specific issues and sub-markets. This role could help bridge the gap between smaller organizations working on the ground and the GSEs, expanding access to credit and helping the GSEs to achieve their goals.

During the previous DTS planning cycle, two network organizations, Fahe, Inc. and cdc b come dream. come build, became authorized seller/servicers with both GSEs. NeighborWorks supported Fahe in setting up a "hub and spoke" lending model, which in turn created access to the secondary market for other CDFIs. This work is an example of an effective partnership model that can be expanded and replicated.

In particular, NeighborWorks would be interested in pursuing this strategy for rural markets, where the NeighborWorks network is deeply embedded but GSE and lender participation has not traditionally been as robust. Pursuing partnerships with experienced entities could mitigate the need for years of piloting and demonstrations, moving more quickly to actual production of affordable housing. We stand ready to help support development of both the partners and partnerships that will be necessary to continue this important work.

Through the experiences of Duty to Serve to date, it is clear that CDFIs are well situated to play a key role in the underserved markets. CDFIs have a unique ability to develop and deploy specialized products to reach customers who would not otherwise be served in many instances. The GSEs must invest in these institutions, not only through the purchase of their paper, but by providing equity investments at the entity level in recognition that the full cycle of work drives towards the Duty to Serve outcomes the GSEs seek. Without this support, CDFIs' ability to continue to scale their work will be limited, capping the progress of the GSEs. These investments are particularly critical for CDFIs serving persistent poverty areas, including Native lands. The GSEs should provide assistance to build the capacity of Native CDFIs, particularly in the area of housing products and services,

manufactured housing, affordable housing development financing, energy efficiency and rural economic development initiatives. Capturing the impact of these investments may require consideration of alternative measures of success beyond simply counting loan purchases.

Another important opportunity for partnership between the GSEs and the broader field is in the area of housing counseling. Financial education and coaching for potential borrowers should be incorporated into and supported by loan products across the board, increasing the sustainability of loans and reducing risks faced by both borrowers and lenders. There is already substantial existing capacity in this space, and NeighborWorks encourages the GSEs to deepen their pursuit of this strategy through NeighborWorks and other entities that have already developed this expertise.

Finally, NeighborWorks is concerned that the format of this public comment opportunity does not allow for adequate public participation. Given the length and scope of the proposed Underserved Markets Plans, it is simply not feasible for organizations including many of those comprising the NeighborWorks network to meaningfully review the content and provide input. As the implementation process gets underway, NeighborWorks recommends that FHFA and the GSEs offer future installments of these plans in a comparative format that allows the public to compare past performance with proposed activities. FHFA should consider ways of standardizing the progress data reported by the GSEs to allow for comparisons between the two.

Affordable Housing Preservation

In communities across the country, there is a severe shortage of affordable housing. Many existing affordable housing developments, both subsidized and unsubsidized, are in need of rehabilitation and recapitalization. The economic effects of the COVID-19 pandemic only served to worsen these challenges. Despite the daunting scale of these needs, preservation of existing units is often still substantially more cost effective than construction of new units, and access to capital is a key component to a successful preservation transaction.

The GSEs can enhance access to capital by offering debt and equity investments, credit enhancement, and other creative products or activities. In particular, the GSEs should resume providing equity investments beyond LIHTC. The former Fannie Mae American Communities Fund is a good model, providing debt and equity products to assist in project-based financing that contributes to a project's overall feasibility. There is a significant need in the market by nonprofits for short- to mid-term (10-year) investments that would support the purchase and preservation of both subsidized and unsubsidized affordable housing. A tailored security with a long term could be an equity-like product. In addition, the GSEs should provide letters of credit, tied directly to the mortgage on a property, to a lender to guarantee up to 95% of the loan-to-value ratio of a loan for the acquisition and/or the rehabilitation of an affordable housing property. The GSEs should also develop loan

products with below-market interest rates or loans based on cash flow below the line to support preservation deals.

NeighborWorks would also like to see the GSEs provide additional support for LIHTC beyond what is proposed. Fannie Mae, in particular, has set unreasonably low targets for loan purchases. Greater investment is especially needed in rural markets and markets outside of the Community Reinvestment Act assessment areas of large banks.

Energy Efficiency

The GSEs should break new ground and be leaders in the financing of the energy efficiency space. They have the scale to demonstrate new approaches and scale them up. Following their outreach during the initial plan cycle, the GSEs should be prepared to make meaningful loan purchases in this area. NeighborWorks is particularly discouraged to see that Freddie Mac's plan excludes this area entirely.

Shared Equity

To support shared equity, the GSEs should establish automated underwriting for loans on properties where deed restrictions survive foreclosure. Products that assist homeowners avoid foreclosure by converting to shared equity loan products should also be explored and supported. To further support shared equity lending, Fannie Mae should make modifications to its shared equity loan product including calculating down payment requirements based upon the affordable purchase (not the appraised value), removing representations & warranty requirements for lenders or providing some alternative incentive, providing guidance on how to evaluate the impact of different resale restrictions on property appraisals and establishing a system to allow market-rate comparables to be used during appraisal process. Freddie Mac should take a more strategic approach to increasing market awareness of shared equity by pursuing strategies such as offering incentives to lenders, proactively recruiting key lenders covering large geographic footprints, focusing on building partnerships between loan originators and shared equity programs, and offering technical assistance to both lenders and program operators in a "help desk" format.

Manufactured Housing

Although manufactured housing is a critical source of affordable housing for many Americans, it is a market segment that has historically been underserved by financial institutions in both the primary and secondary market. As the GSEs continue to gain comfort with manufactured housing and build from their success in purchasing real property titled loans, it is essential that they migrate features of loans offered to site-built properties into the manufactured housing space.

NeighborWorks commends the GSEs' progress on embedding consumer protections on manufactured home loans with pad leases, but much more work remains. Like with site-built housing, the GSEs

should modify their loan products to extend high LTV (raising the limit from 95% to 97%) lending to manufactured housing and remove restrictions on the source of down payment funds that require the funds come directly from the borrower. Similarly, the GSEs should develop a standard procedure for quantifying the cost savings resulting from energy efficiency upgrades and the impact on home values, allowing for greater affordability and credit access for borrowers.

Given their scale and the size of the potential market, the GSEs can truly impact the form which lending takes in the manufactured housing space. One gap that the GSEs could fill is the introduction of a product that enables homeowners to purchase the land upon which their homes are situated. Land ownership would provide rural families with more stability and allow for wealth accumulation.

Manufactured homes are more prevalent in rural communities and many are owned without a mortgage but are in need of replacement due to their age and condition. The GSEs should also develop a loan product focused on replacement of dilapidated and inefficient manufactured homes including pre-1976 manufactured homes. Under Duty to Serve, the GSEs could design and test products with a lower rate and/or longer term to encourage greater energy efficiency and offset the reluctance of existing owners to take on debt. Such a manufactured housing replacement product could function as a pilot for a national social enterprise such as Next Step, where buyers of Energy Star rated homes receive homebuyer education in advance of purchase and where performance can be measured as part of the pilot. Additional financing for replacement can be directed at resident-owned manufactured housing communities as part of the broader strategy for addressing ROCs. More commitment is needed to providing capital for both purchase money mortgages and smaller loan balance refinances in the nonprofit/resident-owned community segment.

Individual owners of manufactured homes also need assistance, whether they are in a park or own the land beneath their home. In addition, residents of older manufactured housing are particularly vulnerable to displacement and their homes face a heightened risk of being destroyed or damaged due to natural disasters. Loan products that provide funding to retrofit manufactured homes and mitigate risks should be given consideration as part of any preservation work. The GSEs could create a purchase vehicle, perhaps as a pilot or series of pilots, to provide liquidity and enhance investment in the rehabilitation of rural single-family homes, both site and factory built.

While it may be more difficult for the GSEs to purchase loans made for highly leveraged residential communities or co-op acquisition, which can frequently require underwriting criteria up to 110% LTV, they can serve low-income neighborhoods and low-income land lease communities through a model of low share value cooperatives or limited equity cooperatives. To meet the needs of other communities, the GSEs can support the CDFIs that are currently participating in this market through balance-sheet financing like that which was done under the American Communities Fund. NeighborWorks strongly supports FHFA giving DTS credit for the purchase and securitization of loan pools from CDFIs in the manufactured housing space.

Chattel Pilots

There is a tremendous need for safe, responsible access to capital for manufactured housing titled as chattel. However, any manufactured housing communities that are included in a chattel pilot should include appropriate resident protections. Through the use of incentives, the GSEs can encourage investor-owned parks to embrace the types of protections more typically found in the mission-driven ownership model and help to make them standard.

NeighborWorks encourages the GSEs to commit to resuming progress on the chattel loan pilots that were halted in 2019, a change which would enable them to actually offer substantial numbers of chattel loans during the plan period. The omission of these pilots from the proposed plans is deeply disappointing and represents a retreat from earlier commitments. The GSEs have suggested that safety and soundness concerns are at play here but have not been transparent regarding the evidence for these claims.

Rural Housing

NeighborWorks is encouraged by the GSEs' efforts to reach a loan subordination agreement with USDA-RD for at-risk Section 515 properties as the long-running challenges with this critical multi-family housing need to be addressed. Given that the majority of rural residents live in single family homes, however, NeighborWorks also urges the GSEs to increase their focus on the preservation of this stock. Resources to rehabilitate and preserve single family homes for purchase or rent are critical in rural areas. Traditional public sources that can be used for rural housing rehabilitation, including HOME, CDBG, RD Section 504 and RD Housing Preservation Grants are under extreme demand pressure and subject to shifting prioritization. As CDFIs serving rural communities scour available capital resources to finance housing rehabilitation, one or both GSEs could greatly expand capital flows by providing liquidity, even on a pilot basis, for junior lien mortgages where the loan proceeds have been utilized to address health, safety and energy improvements to owner-occupied rural single family homes. Providing liquidity for second mortgage rehab loans will leverage the increasingly limited public sources of loan capital. The GSEs should focus on making loan product modifications to serve households not currently served by the existing products. This might also require leaning into rethinking credit scoring, credit building, and credit reporting alternatives.

In addition, the GSEs should explore ways in which they can partner with USDA to provide more capital for the Section 523 (Self-Help housing) and Section 504 (loans and grants for single-family rehab) programs. Any products or pilots that increase the utilization of these programs would be of great benefit to rural homeowners.

Fannie Mae has provided critical financial support to NeighborWorks to develop culturally specific training curriculum for Native communities focused on post-purchase homeownership counseling. However, the GSEs must also increase their work with Native stakeholders to streamline the mortgage lending process in Indian Country; encourage lenders to actively foster relationships with tribal governments, tribal housing authorities, and developers; and, incentivize affordable rental development on trust land. With over 570 federally-recognized tribes and Alaska Native Corporations and 35 Hawaiian Homestead Associations in the United States, it will take time and intentional resourcing to meet the critical needs only exacerbated by the pandemic. The secondary market for mortgage loans is critical to bringing private capital to reservations, but technical and financial support to Native-serving financial institutions to help them become direct mortgage lenders is needed to help Indian Country reach the secondary market.

Access to broadband is another key challenge faced by many rural communities. While the estimates vary, the number of Americans without the ability to access, let alone the ability to afford, broadband internet could be as high as 42 million, according to BroadbandNow Research. The goal of full connectivity, universal access and affordability must be achieved for people and their businesses, including mortgage lending, to be successful. With increasing use of digital executions, the lack of broadband access is exclusionary to these underserved markets. NeighborWorks urges both Enterprises to recognize the importance of high-speed internet access for the people living in manufactured, single family, and multifamily housing, too. As a result, any incentives offered to encourage expansion of access to broadband should be offered in all the underserved markets.

Conclusion

The Duty to Serve regulatory regime is a critically important mission focus of the GSEs that needs enrichment, encouragement and simplification. Success is critical, not simply because a strategic or market plan is met, but rather, because the GSEs are purchasing more safe and sound loans in these long underserved markets. These loans are making a difference in people's lives providing sustainable, affordable homes that often are the only source of wealth building available to them.

Success will hinge on simplifying the Duty to Serve regime, setting appropriate baselines and scaling up the commitments and goals. Most stakeholders find the plans too long and complicated to consider themselves able to engage. We urge the GSEs to take on a greater role in cultivating stakeholders by helping the industry to understand the opportunities. NeighborWorks stands at the ready to help facilitate this work in service of our shared goals. In addition, we hope that FHFA will work with the GSEs to increase the transparency of their plans and progress reports, engage in partnerships to reach organizations and communities with whom they have not traditionally engaged, and commit to action at scale. NeighborWorks encourages a focus not only on the plans themselves, but also on the strategies and partnerships necessary to bring the plan goals to fruition.

On behalf of our network of nonprofit organizations, NeighborWorks is grateful for the opportunity to continue to work with FHFA and the GSEs to increase liquidity and expand access to credit for Americans in underserved communities across the country. We look forward to continuing our engagement with the implementation of the Underserved Markets Plans and stand ready to assist the GSEs in reaching their target audiences.

Sincerely,

A handwritten signature in blue ink, appearing to read 'KJO', enclosed within a blue oval scribble.

Kirsten T. Johnson-Obey
Senior Vice President, Public Policy and Legislative Affairs