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**www.ruralhome.org**

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, S.W.,
Washington, D.C. 20219

RE: Duty to Serve 2022-2024 Plan RFI, Rural Housing & Affordable Housing Preservation Comments

Dear Ms. Barringer,

The Housing Assistance Council (HAC) appreciates the opportunity to offer comments on Duty to Serve as the Enterprises (Fannie Mae and Freddie Mac) propose their 2022-2024 Plans. Our country has faced an unprecedented health and economic challenge in the last 18 months, and Duty to Serve remains critically important to help rural areas recover and thrive.

HAC helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, D.C. and working in all 50 states, HAC is a national nonprofit and a certified community development financial institution (CDFI). We are dedicated to helping local rural organizations build affordable homes and vibrant communities. We provide below-market financing, technical assistance, training, and information services. HAC also serves as rural America's "Information Backbone" with leading public and private sector institutions relying on HAC's independent, non-partisan research and analysis to shape policy. Thus, HAC is uniquely positioned to provide comments and insights on the 2022-2024 proposed Underserved Markets Plans.

Through the Duty to Serve mandate, the Enterprises are rightly tasked with increasing liquidity and investment capital in three traditionally underserved markets: Rural Housing, Manufactured Housing, and Affordable Housing Preservation. Secondary housing market policy is and has historically been part of a system that is delivering vastly different outcomes for people depending on where they are born – and this inequity must be addressed. To that end, as we look forward to the 2022-2024 Plans, and after a record-setting year for growth in 2020,[1] we strongly encourage the Enterprises revise their proposals to set more ambitious goals for the coming years.

## THE IMPORTANCE OF DUTY TO SERVE

As a strong advocate for the Duty to Serve requirements, HAC appreciates the time, effort, and resources FHFA, Fannie Mae, and Freddie Mac have devoted to developing and implementing their Underserved Market Plans. The purchase targets in the 2022-2024 Plans, however, are far too low to meet the need and fulfill the potential of Duty to Serve. If more ambitious purchase targets are not established, the Enterprises and the FHFA risk losing credibility with the very markets they are trying to reach.

The core of HAC's work for five decades has been rural and underserved communities. HAC understands the complexities and difficulties of working in these communities. HAC also understands the promise and possibility of Duty to Serve to affect real and measurable change in these long-overlooked places. Below are our core beliefs with respect to the future of Duty to Serve:

**Racial and Geographic Equity Should Be Core to the Duty to Serve Mission.** Duty to Serve is a social justice issue. In an era in which combating racial and economic inequities is a national priority,[2] we can use Duty to Serve to go past minimum promised levels of loan purchase and to fundamentally shift the lives of Black, Hispanic, Indigenous, and persistently poor families. If you are not part of a new solution, then you remain part of an old problem. These are not times for small thoughts and incremental action.

**Strong Partnerships are Essential to Duty to Serve's Success.** As part of their Plans, the Enterprises have been endeavoring to partner with existing housing providers including local, regional, and national nonprofits, tribes, and CDFIs that already work in rural communities. HAC strongly supports this approach and encourages the Enterprises to further maximize these strategic partnerships within their Duty to Serve efforts in rural communities. These entities have the experience, local trust, and insights to help Fannie Mae and Freddie Mac meet their duty in these often hard to reach areas. Building and expanding these partnerships is more important than ever, as the pandemic strains local rural housing nonprofits and the communities they serve.

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[1] Jann Swanson, "Fannie/Freddie Report Record Growth for 2020," *Mortgage News Daily*, February 15, 2021, http://www.mortgagenewsdaily.com/02152021_gse_financial_reports.asp.

[2] "Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government." January 20, 2021. https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/.

To this end, HAC encourages both the FHFA and the Enterprises to redouble their efforts to engage national and community-based practitioners with the expertise, connections, and trust to make Duty to Serve work in rural America.

Rural America Is Ripe For Investment. HAC's experience is that rural communities – even the most challenged – are largely credit-worthy and ripe for investment, provided that relationship building and an understanding of rural nuances are in place. Rural America is not a monolith and is home to many different housing markets. To build on Duty to Serve's early successes, Fannie Mae and Freddie Mac will need to better understand these unique and often-forgotten markets, and commit meaningful efforts and investment.

More Data can Enable Duty to Serve and Safety and Soundness to Complement One Another. HAC and our rural stakeholders understand the importance of operating in a safe and sound manner when extending financial services. Careful evaluation combined with improved data collection will help ensure the safe and sound operation of the Enterprises while simultaneously reducing risk and helping stimulate quality housing development for low-income families in rural markets.

In order for HAC and others to engage in education about and advocacy for Duty to Serve with rural communities and policymakers, more transparent evaluation methods and outcomes data needs to be made available. HAC encourages the FHFA to issue more detailed evaluations of the Enterprises' work on Duty to Serve. Such robust evaluations would help both policymakers and the target markets understand the impact of Duty to Serve, and identify areas for expansion, improvement, and tailoring.

## HAC'S COMMENTS ON THE ENTERPRISES' 2022-2024 PROPOSED RURAL HOUSING PLANS

Both Enterprises Should Establish More Ambitious Purchase Goals. The Enterprises should consider building on their nascent DTS work by substantially expanding their purchase goals in rural markets. According to FHFA's most recent Annual Report to Congress, both Enterprises largely exceeded their target purchase goals in 2020. While this accomplishment should be acknowledged, the self-set targets were exceeded at a level that questions the baselines from which progress is measured. As an example, in 2020, Fannie Mae met 166% of their rural single family purchase goals, and Freddie Mac met 181% of their rural single family purchase goals. Yet, both Enterprises submitted their 2022-2024 three-year plans with rural purchase targets at, or only slightly above, their 2020 activity. Simply stated, these purchase goals are not sufficient to ‘move the needle’ on housing needs and demand in long overlooked and underinvested rural markets. The Enterprises must commit to doing more.

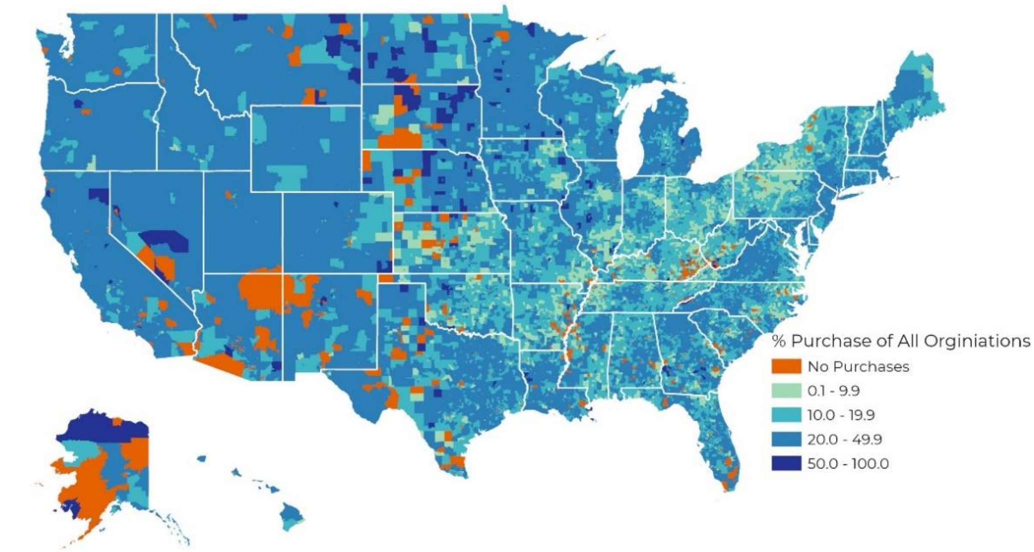
In addition to the numerical targets, geographic activity within the rural markets is an equally important consideration. In several rural markets, especially those experiencing persistent poverty or long-term economic distress, Enterprise activity is limited if nonexistent. In the maps presented below, the Enterprises’ 2020 rural loan single-family purchases are displayed. The orange areas indicate census tracts where Fannie Mae and Freddie Mac respectively did not make any loan purchases in 2020. These orange areas generally coincide with DTS high need areas indicated in subsequent maps.

The positive purchase activity from 2020 is a promising sign of the potential that Duty to Serve holds for underserved markets. However, it also indicates that more ambitious goals are achievable and needed for the 2022-2024 plans. The need for access to capital is still very much present and growing in rural places, and this three-year plan is an opportunity to address those challenges and opportunities head-on. More robust purchase goals will inspire real buy-in from sometimes-skeptical rural communities.

In addition to ambitious and market-realistic goals and targets, FHFA and the Enterprises should consider overall mortgage origination activity in a market, not just the Enterprises’ own past activity when establishing rural purchase activity targets and goals.

# FANNIE MAE SINGLE FAMILY PURCHASE ACTIVITY, 2020

Fannie Mae Purchases as a Percent of all Single-Family Originations




Source: Housing Assistance Council Tabulations of 2020 Home Mortgage Disclosure Act data.

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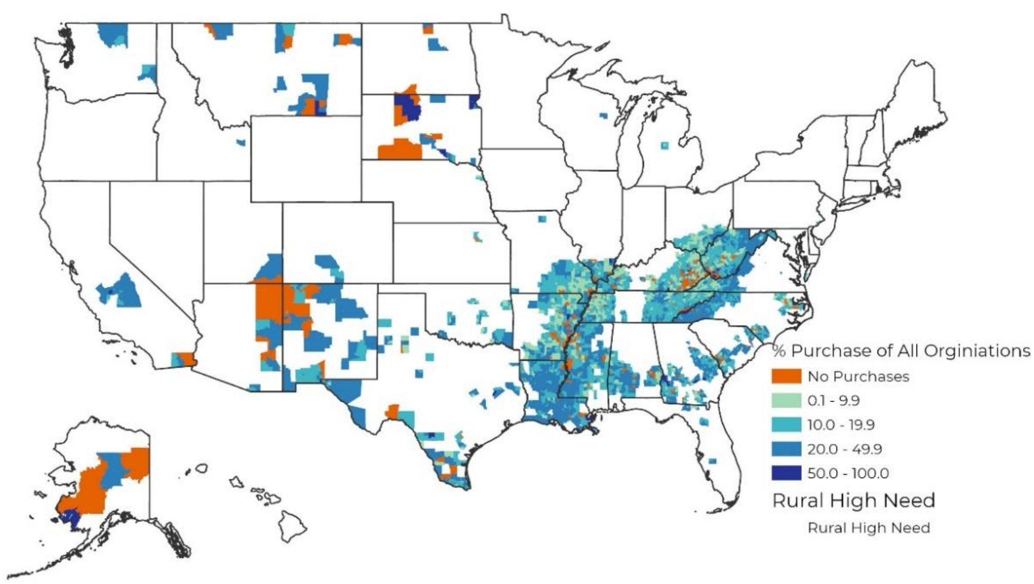
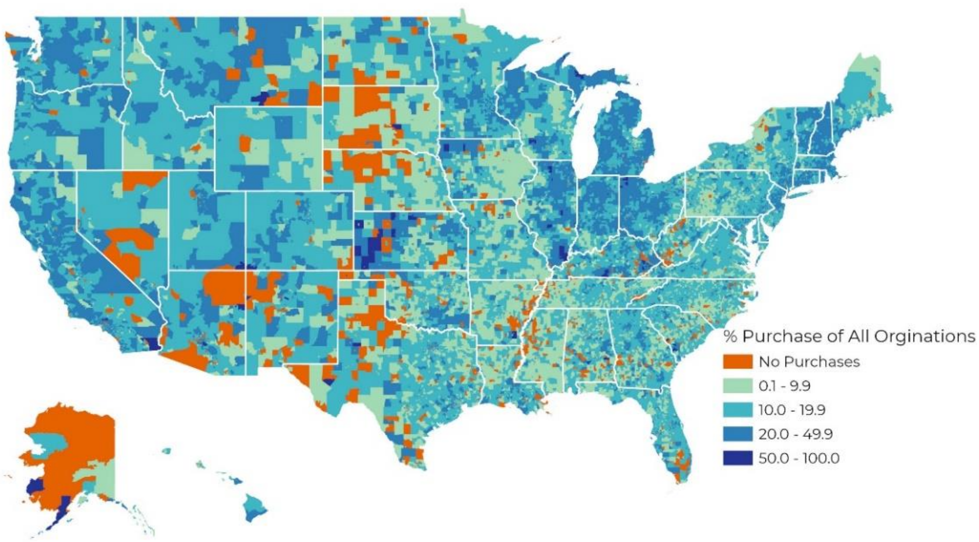



Source: Housing Assistance Council Tabulations of 2020 Home Mortgage Disclosure Act data.

## FREDDIE MAC SINGLE FAMILY PURCHASE ACTIVITY, 2020

Freddie Mac Purchases as a Percent of all Single-Family Originations




Source: Housing Assistance Council Tabulations of 2020 Home Mortgage Disclosure Act data.

## FREDDIE MAC SINGLE FAMILY PURCHASE ACTIVITY, 2020

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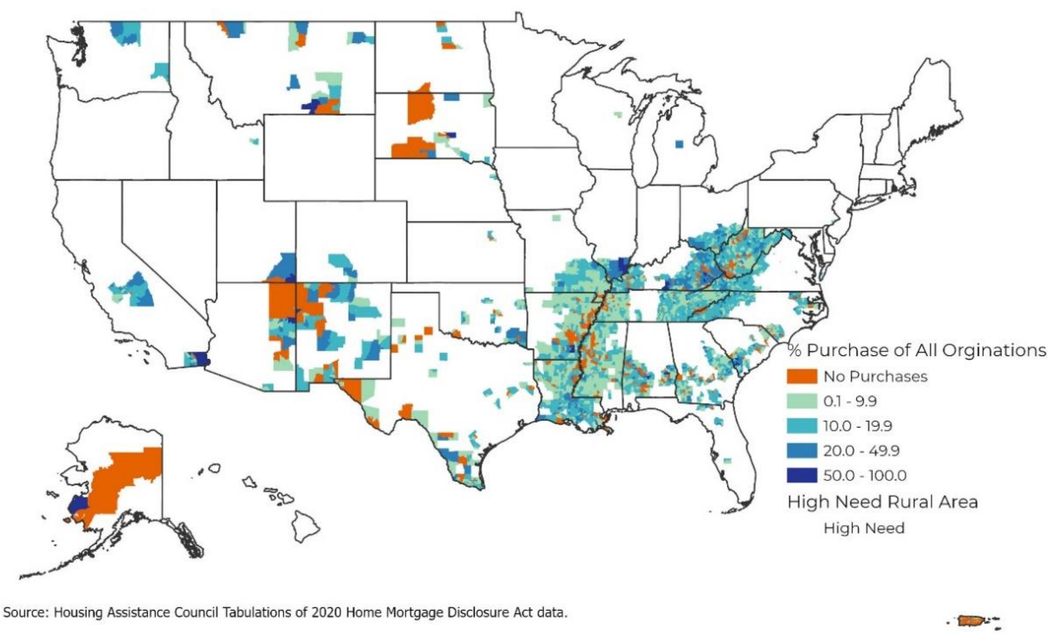
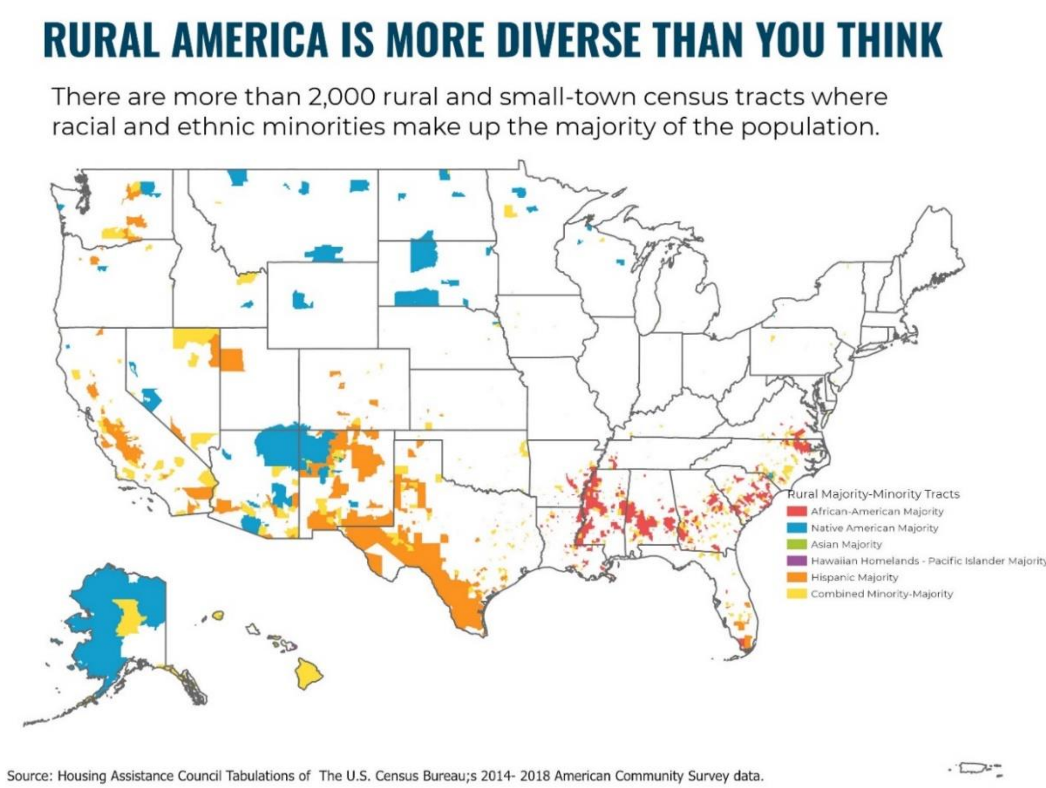



Source: Housing Assistance Council Tabulations of 2020 Home Mortgage Disclosure Act data.

Multi-Sector Participation and Investment is Needed for Duty to Serve to Reach its Full Potential. The next phase of Duty to Serve should continue to build upon the rural relationships that the Enterprises have been fostering over the past few years, especially with local, regional, and national nonprofits, tribes, and CDFIs. The lending models that these organizations have developed work in their communities, and the Enterprises plans would benefit from taking the lessons learned by these local organizations into account when developing appropriate rural products.

A continued and expanded effort to engage in proactive outreach to rural communities and small financial institutions would help make key players aware of the obligation that the Enterprises have to serve rural places and the opportunities that that obligation could bring to rural financial systems. Without a robust level of both local and national awareness about Duty to Serve and its intended impact, its reach will be limited, and the Enterprises will not truly become a presence in rural markets.

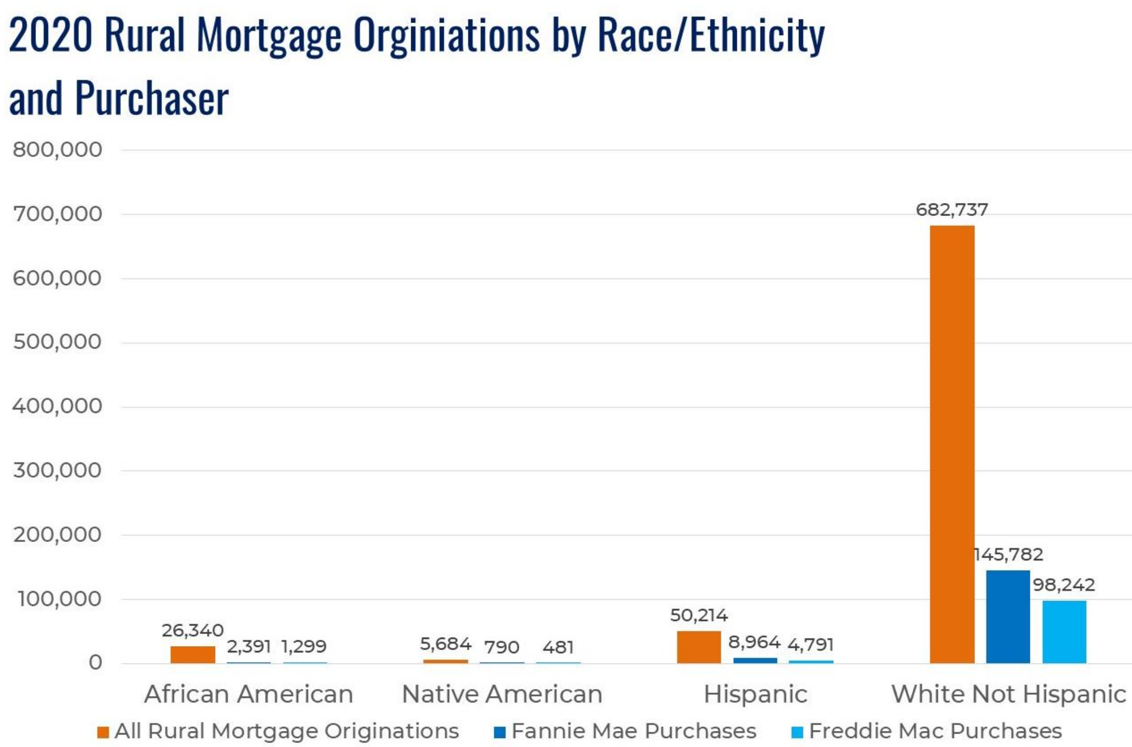
Racial Equity and Inclusion are Integral to Rural Communities and Duty to Serve Efforts. Race is a central and often complex component of our national identity and history which has garnered much needed attention and focus over the past year. Yet these conditions have been a reality and challenge for many rural communities for generations. Rural America has traditionally not



been as racially or ethnically diverse as the nation overall and is often overlooked in the larger national debate and awareness. But rural America is more racially and ethnically diverse that many imagine. Many rural minorities are clustered geographically in regions closely tied to historical social and economic dynamics. There are more than 2,000 rural and small-town census tracts where racial and ethnic minorities make up the majority of the population. Many of these majority-minority rural communities, depicted in the accompanying map, also overlap with Rural Duty To Serve High Need Communities.

The Enterprises' track record on serving rural minorities is woefully inadequate. In an analysis of 2020 Home Mortgage Disclosure Act data, the Housing Assistance Council estimates that the GSEs collectively only purchased 14 percent of all mortgage originations to rural African Americans. Similarly, less than 22 percent and 27 percent of rural Native American and Hispanic mortgage originations respectively were purchased by Fannie Mae or Freddie Mac. In contrast, the GSEs purchased 36 percent of all rural white not Hispanic mortgage originations.

These harsh realities of racial equity in rural communities are most apparent in the housing conditions in which many rural minorities continue to live. Housing characteristics for minorities in rural areas are worse than those for rural whites or all households nationally. Rural minorities are more likely to live in substandard and unaffordable housing and are more likely to be poor. The geographic isolation and relative segregation of rural minorities living in majority-minority census tracts continues to be an important component of poverty and substandard housing in many rural and small town communities. The GSEs can make an impact on these conditions with thoughtful and concerted investment paired with diversity and equity principles in their Duty to Serve efforts. The Enterprises' rural DTS efforts should be coordinated and tied to GSE's and external diversity equity and inclusion commitments and resources to boost their paltry loan activity to rural minorities and their communities.




Additional Targeting and Resource Allocation is Needed to Boost Rural Mortgage Activity. The GSE's relatively modest purchase and investment activity in Duty to Serve rural communities is partially a factor of low baselines and unaspiring goals. But Duty to Serve activity can be bolstered and enhanced by greater targeting and resource allocation. For example, a dedicated share of Capital Magnet Fund awards should be set aside for Duty to Serve Rural areas. While this action would also involve the U.S. Treasury Department, FHFA could help facilitate this GSE produced resource so that funds can be directed to hard to serve rural communities and the entities serving those communities who best understand and can efficiently target these resources.

Clarity and Consistency Are Needed in DTS Plan Development and Presentation. HAC understands the secondary mortgage market can be complex. But the Enterprises' plans are voluminous and can be overly technical and complicated. In addition, inconsistencies in reporting and metrics often make for 'apples to oranges' comparisons between baselines and the two Enterprises. These dynamics make it difficult and daunting for even experienced and resourced policy organizations to analyze and discern the Enterprises' DTS plans. The Plans in their current format are simply not conducive to easy analysis for a larger range of stakeholders. The Housing Assistance Council strongly encourages FHFA and the GSE's to revisit and modify plan presentations to improve standardization and easily understandable metrics of activity and targets.

Greater Coordination and Dedicated Resources at Each Enterprise Would Improve Efficacy. It has been HAC's experience that the Enterprises' approach to Duty to Serve is often segmented by their lines of business and initiatives (Single family, Multifamily, etc.). As such, the flow of information and potential strategies and solutions may not be fully realized by this division and fragmentation. To help improve a more coordinated and synergistic approach, HAC recommends and encourages both Enterprises to establish a dedicated and publicly announced coordinator or coordinating team to help to provide a more comprehensive and wholistic approach to their DTS efforts and requirements.

The Omission of Colonias Communities in Both GSE Plans is Concerning. The Final Duty to Serve Rule identified high-needs rural regions and populations including Middle Appalachia, the Lower Mississippi Delta, Native American Lands, Farmworkers, the Border Colonias, persistent poverty areas. HAC was deeply disappointed that neither Fannie Mae or Freddie Mac mentioned or targeted the Colonias in their plans.

Lax or nonexistent regulations in conjunction with unscrupulous lending practices helped create thousands of communities lacking basic services along the U.S.- Mexico border over the last century. Commonly referred to as "Colonias," these communities have shared indices of high and persistent poverty, chronic economic distress, extremely substandard housing, and are almost exclusively inhabited by low-income Hispanic families. Colonias are among the most distressed and overlooked regions in this nation.

Fannie Mae is to be commended for their support of the 'Colonias Investment Areas' concept and research in their first three-year DTS plan. This research met a void in the FHFA final rule, but also provided much needed research on the understudied and overlooked housing market. HAC encourages Fannie Mae to continue to pursue a better understanding of Colonias Investment Areas with updated research and metrics as these areas are dynamic and change occurs often.

Additionally, the next logical extension of Colonias Investment Areas is the concept of 'New Colonias.' As developers and markets in the Border Region respond to various regulatory efforts and population and economic trends, new forms of Colonias are developing in the region. The Federal Reserve Bank of Dallas noted the emergence of 'New Colonias' in a 2015 report, but limited research has been conducted on this topic. This issue aligns directly with Duty to Serve efforts in the region and HAC encourages the Enterprises to support additional research and strategy development on this emergent issue.

Finally, the Housing Assistance Council believes that the Enterprises should be actively and robustly working in all the identified high need markets and not selectively including some and omitting others in their plans.

Improved Data and Targeted Research Are Still Needed for High Need Rural Communities. At this juncture in Duty to Serve, HAC believes the Enterprises should largely be engaged in direct activities to help house low income families in rural markets. But outreach and research are not only needed, but also directly compliment and inform appropriate housing purchases and provision. Many of the Enterprises' product offerings are still not compatible with rural High Need Area markets or households, and economic and housing conditions are continually changing – especially in the wake of COVID-19.

The Housing Assistance Council has been a supporter and participant in both Fannie Mae commissioned research and Freddie Mac's Rural Research Symposiums. HAC encourages both Fannie and Freddie to continue and expand these efforts to inform strategies and solutions for the rural communities and markets.

Additionally, both enterprises should commission external research from trusted and knowledgeable entities and institutions to conduct detailed market research on each of the rural high need regions and populations of Middle Appalachia, the Lower Mississippi Delta, Border Colonias region, Native American Lands and Migrant and Seasonal Farmworkers. Each GSE should commission at least one major rural regional/population analysis similar to Colonias Investment Areas or HUD's study 2016-2017 study on Native American housing needs for each year of their three year plan.

In addition to GSE research and information needs, the Housing Assistance Council calls on FHFA to dramatically expand it's presentation of data on the GSE's rural market activity and accomplishments. HAC compliments FHFA on rural DTS indicators in its Public Use Database. While these data are a vast improvement we also suggest more accessible and usable data and information formats (e.g. dashboards, summary tables etc.) that can be easily accessed by a wider array of audiences and stakeholders.

COVID-19 Will likely Continue to Impact Rural and Underserved Markets Differently and Exacerbate Longstanding Inequities. Rural America simultaneously had some of the highest and lowest rates of reported COVID-19 cases in the nation. The chronological and geographic progression of the disease was equally uneven. Some rural communities were impacted in the first waves of the virus in spring of 2020, while a few rural communities had no reported cases from COVID 19 until 9 or 10 months into the pandemic. There have been several instances of extremely high per-capita infection rates in rural areas - notably on some Native American lands and communities with meat packing facilities and prisons, and rural communities of color and regions of persistent poverty.

While the ramifications of the pandemic are still playing out, the rural housing ecosystem remains uncertain. HAC spent much of 2020 and 2021 closely monitoring not only the public health elements of the crisis, but the economic and housing impacts specifically on rural communities. HAC urges FHFA and the Enterprises to continue to monitor impact and adjust for potential immediate and long-term ramifications for rural housing from this unprecedented event.

Many Americans have been buoyed by large scale federal unemployment benefits and economic stimulus. But some of those resources are ending and the CDC's eviction moratorium is slated to end July 30, 2021. The collateral impacts of COVID-19 to almost all sectors of the housing market could be substantial – notably the ability of unemployed households to make rent and mortgage payments. Housing instability is particularly concerning for rural renters who typically have lower incomes, less savings, higher unemployment due to COVID, fewer protections and less ability to weather economic shocks.

There are also concerns on the supply side of rural housing markets. Many landlords have declining rental income because of policies and adjustments related to the pandemic. Rural housing market dynamics are also distinct in this realm. On one hand, the levels of "free and clear" homeownership without a mortgage are highest in rural America and this could help provide stability for many homeowners during the economic crisis. But in rural rental markets, rental properties tend to be smaller and are also more likely to be owned by individuals who may be less able to weather a loss of rental income. Approximately 45 percent of rural renters live in single-family homes, compared to only 19 percent in cities and 34 percent in suburbs.

HAC was encouraged by the Enterprises' attention to COVID but also underscores the likelihood that while COVID came later to rural and underserved communities its impacts to the economies and housing markets may last longer and have a more deleterious effects that only serve to exacerbate longstanding inequities in these communities. HAC developed a multifaceted response to help rural communities and housing providers reposition in a time of unprecedented crisis. We implore FHFA and the

Enterprises to not lose sight or reduce Duty to Serve efforts in light of this circumstance as these are the communities that may suffer and lose the most ground from the pandemic.

## HAC'S COMMENTS ON THE ENTERPRISES' 2022-2024 PROPOSED AFFORDABLE HOUSING PRESERVATION PLANS

Some of the most vulnerable rural residents rent their homes. Yet there are not enough decent, affordable rentals for those who need them, and a notable portion of them are endangered by expiring use restrictions, physical aging, or both. Preservation of affordable rental housing in rural America remains an important component of the Enterprises' Duty to Serve.

Given that context, HAC is disappointed to see generally low and inadequate purchase goals included in the Enterprises' 2022-2024 Plans. Across the board, we encourage the Enterprises to set purchase and investment targets that exceed the high-water mark from the last several years.

The Need For Rural Rental Preservation. Cost burdens and physically inadequate housing affect rural renters. Even before the coronavirus pandemic began, housing costs were a significant problem for rural renters, as they were for urban and suburban residents. Almost 40 percent of renters in places outside metropolitan areas (750,000 households) were cost burdened in 2018, paying more than 30 percent of their income for rent and utilities.[3] Cost burden rates in rural America increased from 2009 to 2017, with a particularly striking jump for rural renters with incomes $20,000-$49,999. Their cost burden rate rose a full 10 percentage points from 26 percent in 2009 to 36 percent in 2017.[4]

At the same time, rural renters experience a disproportionately high rate of physically inadequate housing. Nationwide, 14.8 percent of inadequate rental units are outside metro areas, although only 11.7 percent of all rental units are there.[5] Substandard housing is particularly problematic for Native American renters, 6.6 percent of whom occupy such units. Native American and Hispanic

[3] Joint Center for Housing Studies of Harvard University (JCHS), America's Rental Housing 2020, https://www.jchs.harvard.edu/americas-rental-housing-2020.
[4] Andrew Dumont, Rural Affordable Rental Housing: An Exploration of Need, Federal Support, and the Low Income Housing Tax Credit, presentation at Freddie Mae Rural Housing Research Symposium, 2019, https://sf.freddiemac.com/resources/an-exploration-of-need-federal-support-and-the-low-income-housing-tax-credit.
[5] JCHS, Table W-6, https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_ARH_2020_Appendix_Tables_Revised.xlsx.

renters in nonmetro areas are also more likely than others to live in overcrowded homes, with rates at 13.9 percent and 12.5 percent respectively.[6]

USDA-Financed Rental Housing Is At Risk. Although the supply of affordable rural rental housing is already unable to meet the current need, it is declining further as rental properties with U.S. Department of Agriculture (USDA) Section 514 and 515 mortgage loans are leaving the programs and their affordability requirements. Currently over 13,000 Section 515 properties provide more than 415,000 affordable rental homes across rural America. The vast majority of them were constructed before 1990. As their mortgages reach maturity, if there is no intervention, an average of over 16,000 Section 515 units will be lost each year from 2028 to 2032. Losses will then continue at an even faster pace through 2045, and by 2050 no Section 515 units will remain.[7]

The mortgage maturity problem is compounded by owners' ability to prepay their mortgages in some situations. As of 2016, about 5,300 Section 515 properties (38.2 percent of properties, encompassing over 150,000 units) were eligible to prepay.

Preserving Section 515 stock is expensive. The 2016-2025 cost for physical repairs and improvements alone has been estimated at $4.728 billion.[8] Yet preservation is essential, because replacing lost units would be even more expensive than preservation and Section 515 tenants have few other options. Over 60 percent of them are seniors and people with disabilities. Their annual income averages only $13,640.[9] Not surprisingly, 80 percent of Section 515 tenants rely on rental assistance, the majority through USDA's Section 521 Rental Assistance program. As of September 2020, more than one-third of the unassisted tenants were cost-burdened, paying more than 30 percent of their income for rent. (Additional Section 521 aid was made available by the American Rescue Plan Act in March 2021, but data on its impact is not yet available.)

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[6] JCHS, p. 35.

[7] Housing Assistance Council, Rental Housing for a 21st Century Rural America: A Platform for Preservation (Washington, DC: HAC, 2018), p. 49, http://www.ruralhome.org/storage/documents/publications/rrreports/HAC_A_PLATFORM_FOR_PRESERVATION.pdf.

[8] CoreLogic, Inc. and RSM US LLP, USDA Rural Development Multi-Family Housing Comprehensive Property Assessment (March 1, 2016), https://www.rd.usda.gov/files/reports/USDA-RD-CPAMFH.pdf. The analysis also covered USDA's other rental housing programs, estimating an additional $782 million cost over 20 years for properties in the Section 514/516 farmworker housing, Section 538 rental housing guarantee and Multi-Family Preservation and Revitalization (MPR) portfolios.

[9] Elizabeth Green, Results of the 2020 Multi-Family Housing Annual Fair Housing Occupancy Report, Unnumbered Letter (November 21, 2020),https://www.rd.usda.gov/sites/default/files/RDUL-Occupancy.pdf. ..

The Enterprises' Purchase Goals for Section 515 Properties Do Not Meet the Need. Both Enterprises have spent the last several years working toward a subordination agreement with the U.S. Department of Agriculture (USDA) to allow for the purchase loans secured by Section 515 properties at risk of exiting the program, and both Enterprises plan to finalize such an agreement in 2021. This is long overdue and we encourage the Enterprises to meet this timeline and avoid further delays.

Once such a subordination agreement is in place, Fannie Mae proposes to purchase six loans in 2022, nine loans in 2023, and 13 loans in 2024;[10] and Freddie Mac proposes to purchase only one loan in 2023 and one loan in 2024.[11] Fannie Mae stated that their goal would correspond with what they view as their market share, and Freddie Mac cited long transaction times as a barrier to greater activity. But with thousands of units being lost each year, these commitments are woefully inadequate.

The Enterprises Should Invest in Additional Section 515 Preservation Research. There is a dire need within the rural preservation community for research funding to streamline the preservation process and eliminate design flaws in USDA's multifamily programs and set USDA's entire portfolio of rental housing on a path toward efficient and sustainable operations. The Enterprises have experienced this need firsthand in their work to establish subordination agreements with USDA for the purchase of Section 515 properties. HAC encourages the Enterprises to establish an independent Council on Rural Preservation with the capacity to analyze the program and develop solutions and best practices that will preserve current properties and set the program on firm financial footing.

HAC specifically appreciates Fannie Mae's commitment to support technical assistance programs that facilitate the preservation of Section 515 properties.[12] This research work could pair with and build on that commitment. Without research funding behind this effort, USDA preservation will continue to be excessively burdensome.

The FHFA Must Allow For and The Enterprises Should Engage in Investments in CDFIs That Participate in Preservation Lending. Rural-serving CDFIs have built the relationships and expertise necessary to serve the rural preservation

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[10] Fannie Mae Duty to Serve Underserved Markets Plan, 2022-2024. Pg 39. https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FNM-2022-24-proposed-UMP.pdf.
[11] Freddie Mac Duty to Serve Underserved Markets Plan, 2022-2024. Pg RH35. https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FRE-2022-24-proposed-UMP.pdf.
[12] Fannie Mae Duty to Serve Underserved Markets Plan, 2022-2024. Pg 40. https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FNM-2022-24-proposed-UMP.pdf

needs of the communities in which they work. The Enterprises could advance their Duty to Serve mission by leveraging the relationships and expertise of these rural organizations. Oftentimes, these CDFIs do not have the capacity to go thorough the process of becoming a seller servicer with the Enterprises, and even when do they make it through the process, the loans they make do not fit within the Enterprises' requirements and are turned away. In order to address this barrier, the Enterprises should pivot to support CDFIs and other mission-driven lenders in complex preservation deals by helping to cover their costs or lowering fees; investing equity or debt in the preservation loan funds of CDFIs; and making small grants to preservation purchasers, particularly nonprofit organizations, to cover some of the costs involved in preservation transactions.

Legal interpretations at the FHFA have been a barrier to this type of work and need to be revisited internally with the Office of General Counsel at the FHFA.

The Enterprises' Rural LIHTC Investment Goals are Insufficient. The Low-Income Housing Tax Credit (LIHTC) program is often the only source of high-quality affordable housing production and preservation in rural areas. As Freddie Mac cited in their own research, "LIHTC supports 40.1% of the multifamily housing market in rural PPCs (persistent poverty counties), a rate that is more than three times greater than the national average and one and a half times greater than all rural areas."[13]

Fannie Mae proposes to engage in 42 LIHTC investments in rural areas in each year from 2022-2024. Fannie Mae engaged in 98 rural LIHTC equity investments in 2019 and 65 in 2020, so this is actually a step in the wrong direction.[14] Similarly, Freddie Mac proposes to engage in 15 LIHTC investments in rural areas in each year from 2022-2024. Freddie Mac engaged in 20 rural LIHTC equity investments in 2020, so is also a step down year-over-year.[15] Neither Enterprise separates out high-needs rural regions from all rural regions for this goal.

In order to fulfill the promise of Duty to Serve, the Enterprises should reevaluate and establish more ambitious LIHTC investment goals. It is, in HAC's opinion, unacceptable to set targets below previous years' activity; at the very least, the goals should be set at 2020's performance levels. And LIHTC

[13] "LIHTC in Rural Persistent Poverty Counties," Freddie Mac Spotlight on Underserved Markets, pg 1, https://mf.freddiemac.com/docs/lihtc_persistent_poverty_counties.pdf.
[14] Fannie Mae Duty to Serve Underserved Markets Plan, 2022-2024. Pg 73. https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FNM-2022-24-proposed-UMP.pdf.
[15] Freddie Mac Duty to Serve Underserved Markets Plan, 2022-2024. Pg RH37. https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FRE-2022-24-proposed-UMP.pdf.

investments should also be reported for high-needs rural regions, to discourage all the activity from being carried out in easier-to-serve prosperous rural regions.

The Enterprises Need to Recommend Ambitious Small Multifamily Purchase Goals. Small financial institutions often hold loans on portfolio because of lack of access to the secondary mortgage market. This limits local liquidity and access to capital in underserved rural areas. In the 2018-2021 Plans, Fannie Mae established a goal to "adopt an effective approach to purchase small multifamily loans from financial entities with $10 billion or less in assets and purchase loans."[16] However, this small multifamily purchase goal has been removed from their 2022-2024 Plan.

Freddie Mac proposes purchasing or guaranteeing $200 million in seasoned small multifamily loans each year from 2022-2024. However, this is a significant drop from their $567 million/year average over the last three years. Freddie Mac cites low interest rates and long transaction times as their reason for pulling back from this market.[17] The Duty to Serve does not apply only to transactions that can be completed the same way as those that fall outside the DtS requirements, however. It is appropriate for Duty to Serve transactions to be more difficult or less profitable than others. Again, at the very least, both Enterprises should set these goals at their past performance levels.

Thank you for hosting this series of listening sessions. HAC truly appreciates the opportunity to speak to the yet-untapped potential of Duty to Serve in rural communities.

Sincerely,

David Lipsetz
President & CEO

[16] Fannie Mae's 2018-2021 Duty to Serve Plan, pg AHP33, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FannieMaeDTSPlan_2018-2021.pdf.
[17] Freddie Mac Duty to Serve Underserved Markets Plan, 2022-2024. Pg AHP20. https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FRE-2022-24-proposed-UMP.pdf.