HAC
Housing Assistance Council
We help build homes and communities across rural America.

December 6, 2023

Marcea Barringer
Supervisory Policy Analyst
Attention: Duty to Serve 2023 RFI
Federal Housing Finance Agency
Ninth Floor, 400 Seventh Street, SW
Washington, DC 20219

RE: Request For Input On Fannie Mae And Freddie Mac 2023 Duty To Serve Plan Modifications

Dear Ms. Barringer,

The Housing Assistance Council (HAC) appreciates the opportunity to comment on the 2023 Duty to Serve Plan modifications proposed by Fannie Mae and Freddie Mac (the Enterprises). The true, yet-untapped potential of Duty to Serve requires the Enterprises to set and stick to ambitious goals. However, many of the modifications proposed this year center around decreasing loan purchase targets, diluting the potential of Duty to Serve.

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 on the Enterprises' Plan modifications.

Overall, when considering the proposed Plan modifications, HAC understands the challenges that come with the current market conditions, but encourages the FHFA and the Enterprises to maintain purchase goals even (and perhaps especially) amid challenging market conditions. The mission of Duty to Serve calls the Enterprises to work proactively in these underserved markets even when it is challenging and runs counter to their

1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005
202-842-8600 hac@ruralhome.org ruralhome.org 202-347-3441

profit motives. Duty to Serve purchases account for a small portion of the Enterprises work and the current Plans were drafted with market conditions in mind, so drastic cuts to purchase goals should not be permitted.

USDA Section 515 Preservation

Proposed modification: Freddie Mac, USDA Section 515, Objective A

Freddie Mac proposes a Plan modification to remove the USDA Section 515 loan purchase goals from the Preservation section of their Plan, but maintain the Section 515 loan purchase goals in the Rural section of the Plan, which are essentially the same volume of purchases with more targeting to properties in rural areas. HAC is generally agnostic as to what section of the DTS plan Section 515 loan purchases are included under as long as they remain a part of the overall Plan. Additionally, HAC prefers maintaining the Section 515 purchase targets under the Rural section because of the more specific targeting of properties in rural areas.

Both Enterprises worked for several years to complete subordination agreements with USDA for Section 515 loan purchases and we encourage them to continue to work to meet or exceed the purchase targets in their Plans. Over 900 Section 515 properties and 21,000 units were lost from the program between 2016 and 2021,[1] demonstrating that the preservation needs of the portfolio are not being met by current funding sources. HAC encourages both Enterprises to meet or exceed the terms currently offered by the USDA Section 538 program in order to make their preservation product competitive to fill this need. Additionally, the Enterprises should seek out smaller, more challenging preservation deals that would not as readily fit into the Section 538 pipeline.

And lastly, HAC continues to recommend that both Enterprises add equity investments in CDFIs engaged in Section 515 preservation to their Plans. The available preservation programs are often incompatible with smaller, more difficult preservation deals. These deals instead fall to mission-driven CDFIs, who need capital support to continue to important work.

Loan Purchases in High Needs Rural Regions & from Small Financial Institutions

[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/.

> *Proposed modifications: Fannie Mae, Housing in High-Needs Rural Regions, Objective 2 & Financing by Small Financial Institutions of Rural Housing, Objective 1; Freddie Mac, Housing in High-Needs Rural Regions, Objective A, Financing by Small Financial Institutions (SFIs) of Rural Housing, Objective A*

Both Enterprises propose decreasing their loan purchases for single family purchase money mortgage (PMM) loans in high-needs rural regions and from small financial institutions. The reason given for this proposed decrease – that overall market volume has slowed considerably due to interest rates – is understandable.

However, the intent of Duty to Serve is for the Enterprises to stretch themselves into markets that are not naturally functional. The current proposed cuts appear to be generally proportional to the overall drop in market volume, however we would encourage the Enterprises to scale back the size of their proposed cuts to these purchase goals to demonstrate a commitment to Duty to Serve that is not so strictly tied to traditional market conditions.

Loan Purchases for Manufactured Housing Communities

> *Proposed modifications: Fannie Mae, Manufactured Housing Communities Owned by a Governmental Entity, Nonprofit Organization, or Residents Objective 1; Freddie Mac, Manufactured Housing Communities Owned by a Governmental Instrumentality, Non-Profit Organization, or Residents, Objective A*

In a similar vein to HAC's comments on the proposed cuts to loan purchases in high-needs rural regions and from small financial institutions in rural areas, we are concerned with the Enterprises proposed cuts to the purchase goals for manufactured housing communities.

Fannie Mae cites that there are other entities that already offer "permanent loan products for ROCs in certain geographic markets across the country which either rival our program terms or provide more flexibility in terms of loan-level pricing or credit underwriting standards." If that is the case, then that should be an indicator that the Enterprises need to meet or exceed the terms being offered in the market currently.

Manufactured Housing Lending on Tribal Trust Land

> *Proposed modification: Fannie Mae, Support Manufactured Home Lending on Tribal Trust Land (New Objective)*

Fannie Mae has included a new objective in their proposed plan modifications relating to increased product and process flexibilities to streamline manufactured home lending on tribal trust land. HAC applauds this effort. Manufactured homes are a too often overlooked and unfairly maligned component of our nation's housing stock. They also serve as a critical affordable housing option in many Native communities.

The physical quality of manufactured housing has improved substantially in recent years and continues to progress due to responsible regulation and advances in technology. However, the basic systems by which these homes are sold, financed, managed, and insured are still often problematic and in need of improvement to ensure that manufactured homes are a reliable affordable housing option for sometimes vulnerable populations. We are hopeful that Fannie Mae's new objective on this topic will increase access to conventional financing for manufactured homes on trust land.

Equity Investments in CDFIs

While not included in this set of plan modifications, we continue to encourage the FHFA to take this opportunity to approve the use of the equity investment tool for CDFIs.

Permitting targeted equity investments in CDFIs is, in HAC's opinion, the single most impactful action that the FHFA could currently take to improve Duty to Serve outcomes. It would allow community-based nonprofit lenders to bring the power of the Enterprises to markets in which little to no mortgage activity currently occurs, growing new markets for future activity by the Enterprises.

More broadly, targeted equity investments in CDFIs that are already lending for rural housing, manufactured housing, and affordable housing preservation would significantly improve liquidity and the distribution of investment capital for all the Duty to Serve underserved markets. For example, targeted equity investments from the Enterprises could have a significant impact in reversing USDA's Section 515 preservation crisis by providing the capital for CDFIs to make preservation loans. CDFIs have been working in these markets for decades and have the relationships and track record to successfully lend and develop the products and services needed to serve the housing needs of underserved communities. These capable organizations just need additional access to capital and liquidity to turn mortgage deserts into fertile markets for Enterprise activity.

In the statute establishing Duty to Serve, Congress set out "investments" as one of four explicit criteria that FHFA must use in evaluating the Enterprises' Duty to Serve performance.[2] Because this statutory change applies only to very limited equity investments that are part of the Enterprises' overall strategy to reach Duty to Serve's underserved markets, allowing this controlled investment would unlock massive potential for improved access to capital in the underserved markets without any significant increase in risk. It is time for the FHFA's previous decision on targeted equity investments to be reassessed and we encourage the FHFA leadership team to ask the FHFA general counsel to do so.

Thank you for your time and consideration of these comments. We greatly value our partnership and look forward to continuing to work with FHFA and the Enterprises to address these important challenges.

Sincerely,

David Lipsetz

David Lipsetz
President & CEO

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[2] Housing and Economic Recovery Act of 2008, 12 U.S.C. § 4565(d)(2)(D) (2020).