LISC
LOCAL INITIATIVES SUPPORT CORPORATION

October 23, 2020

Rebecca Cohen
Senior Policy Analyst
Federal Housing Finance Agency
400 Seventh Street, S.W.
Washington, D.C. 20219

RE: Duty to Serve 2020-2021 Request for Information

Dear Ms. Cohen:

The Local Initiatives Support Corporation (LISC) appreciates the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) request for information on Fannie Mae and Freddie Mac's 2018-2020 Duty to Serve plan modifications and extensions for 2021.

Established in 1979, LISC is a national nonprofit housing and community development organization dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. LISC mobilizes corporate, government, and philanthropic support to provide local community development organizations with loans, grants, and equity investments; as well as technical and management assistance. Our organization has a nationwide footprint, with local offices in 36 cities. LISC invests approximately $1.4 billion each year in these communities. Our work covers a wide range of activities, including housing, economic development, building family wealth and incomes, education, and creating healthy communities.

I) General Comments

LISC strongly supports the efforts of Congress and FHFA to expand the mission and regulation of the Government Sponsored Enterprises (GSEs) beyond the affordable housing goals that have been in place since 1992. LISC provided comments in 2017 on the GSE's proposed Underserved Market Plans and in 2016 on the DTS Notice of Proposed Rulemaking, in addition to comments in 2009 and 2010. We applaud the thoughtful and creative approaches to underserved markets that are reflected in the current rule, particularly the inclusion of affordable housing preservation programs.

LISC believes that the Duty to Serve effort should focus primarily on supporting and expanding transactions that improve affordable housing opportunities in underserved geographies and for underserved populations. The efforts of the GSEs pursuant to their Duty to Serve should be evaluated by the extent to which they facilitate more transactions to create or preserve these types of housing opportunities, particularly for households at the lowest end of the income spectrum (consistent with their mandate to engage in profit-making activities).

The outreach of the GSEs and FHFA in developing the DTS plans has been commendable, and LISC believes the types of transactions that will expand choice and opportunity for underserved areas and low-income households are often smaller, more labor-intensive, and have different risk profiles than is typical in conventional mortgage underwriting. Community development financial institutions (CDFIs) such as LISC have worked in underserved communities for many years and have first-hand knowledge of local markets and partners. We are adept at mitigating the risks that are often inherent in investing in them. With our strong loan portfolios, CDFIs are natural partners for leveraging the GSEs liquidity and expanding responsible investment in these markets.

II) Specific Comments

LISC's specific comments focus on affordable housing preservation, which is a critical component of our broader strategy for community revitalization and economic mobility. LISC supports affordable housing preservation activities through technical assistance activities in our national footprint and through our financing activities and those of the National Equity Fund, our nonprofit low-income housing tax credit (LIHTC) syndicator affiliate.

a) Fannie Mae and Freddie Mac's 2020 Goal Modifications

Fannie Mae has proposed modifying their 2020 goals for preserving properties financed under the **USDA Section 515 Rural Rental Housing Program (Objective 1)**. The current plan sets a goal of purchasing at least six loans secured by Section 515 properties at risk of exiting the program. The new goal would eliminate loan purchase activity and change it to partnering with nonprofit organizations with experience with USDA Rural Housing Service programs to deliver robust technical assistance programs to 515 property owners and mission oriented organizations focused on acquiring properties at risk of exiting the program.

Fannie Mae justifies this change by citing the impacts of the COVID-19 pandemic on lender capacity to roll out new product lines and overall market slowdowns. In addition, they state that USDA was unable to devote adequate resources to further work on this initiative. We appreciate Fannie Mae's focus on preserving Section 515 properties since these are critical housing resources in rural communities. There are over 13,000 Section 515 properties, providing over 415,000 units of affordable homes to low-income residents in rural areas. These residents are some of our nation's most vulnerable populations, with the majority of units occupied by low-income older adults and person with disabilities. Many of these properties are old, with nearly 90 percent over 20 years old, and half over 30 years old[1]. Many of the at risk properties have large capital needs and limited ability to access debt due to cash flow challenges to finance property level improvements.

LISC is concerned about the current loss of Section 515 properties and the coming wave as mortgages mature. For instance, there are over 5,000 properties under the program that are becoming eligible for prepayment each year during the next 10 years, with a significant increase in annual prepayment eligibility beginning in 2028. LISC testified before the House Financial Services Committee last year on legislation that would provide USDA new authorities and resources to help preserve this housing and we actively work on preservation financing through NEF and our Rural LISC team[2].

While we understand the difficulties of creating a new Section 515 loan purchase product, we encourage USDA and Fannie Mae to continue discussions and not lower purchase volume targets after encountering difficulties. Previous DTS plan amendments have indicated that USDA's first lien requirement on Section 515 properties to retain the Section 521 Rental Assistance have created implementation challenges for Fannie Mae. LISC believes it's better to maintain the current loan purchase activity goals, even when not successful, since it incentivizes Fannie Mae to resolve challenges. We believe the goal should be

[1] http://www.ruralhome.org/storage/documents/publications/rrreports/A_Platform_For_Preservation_EXECUTIVE%20SUMMARY.pdf

[2] https://www.lisc.org/media/filer_public/1a/95/1a950dc4-6612-485b-9c69-77bb856c518c/040219_policy_comments_rural_housing_hfsc_testimony.pdf

modified to include technical assistance as described, in addition to maintaining the current loan purchase activity.

Fannie Mae is also proposing to make changes to its **Financing of Small Multifamily Rental Properties Objective #1**. The objective is to adopt an effective approach to purchase small multifamily loans from financial entities with $10 billion or less in assets. Fannie Mae has modified the goal so that it focuses on purchasing small multifamily loans from CDFIs with $10 billion or less in assets. LISC supports increasing financing supports for CDFIs financing small multifamily properties, especially since many are currently at risk due to higher operating expenses and decreased rent collections as a result of the COVID-19 pandemic. These properties often provide unsubsidized affordable housing to low-income families. Small multifamily property owners often encounter conventional financing difficulties due to smaller mortgage sizes, which aren't often profitable for lenders. Outside of the DTS goal, we recommend that FHFA and Fannie Mae proactively reach out to the CDFI industry to develop a streamlined process for approving CDFIs as DUS lenders so more mission-based lenders participate in Fannie Mae financing.

Freddie Mac is proposing a modification to one objective which supports Residential Economic Diversity (Objective D) and proposes a new one (Objective F). Changes to **Objective D, Conduct and Publish Three Research Projects on Housing in Areas of Concentrated Poverty (QCTs and R/ECAPs)** would replace three additional Freddie Mac supported case studies of properties in areas of concentrated poverty (ACPs) with research on the landscape of development activity in these areas, including the prevalence of mixed-income properties, and identify challenges and opportunities for mixed income housing. Freddie will identify market factors that can be leveraged to further residential economic diversity and opportunity through mixed-income housing in ACPs. LISC supports building off Freddie's previous research in this area to encourage additional investment in ACP. We know firsthand how difficult it is to facilitate capital into persistent poverty and high poverty communities that doesn't create negative impacts on existing residents. More data on responsible models is sorely needed, especially as our country considers proven strategies to help highly distressed communities.

Objective F, Develop a Tool to Identify LIHTC Properties and Section 8 Properties in Areas of Residential Economic Diversity for Preservation Around the Country is a new goal to introduce a tool to Freddie Mac's seller/servicer network to more easily identify LIHTC and Section 8 properties in need of preservation in areas of residential economic diversity. This tool is designed to make it easier for mission-based lenders to target properties that are coming towards the end of their affordability periods and at risk of converting to market rate. This is important since national data on these properties is often difficult to ascertain since many properties have multiple subsidy sources. This tool will help mission based lenders like LISC identify preservation opportunities, including those in higher opportunity neighborhoods that are most at risk. For this goal, we recommend that certified CDFIs automatically qualify as "impact oriented lenders" since they are by definition mission and community outcome focused lending institutions. Lastly, Freddie Mac should also develop a strategy to work through community based organizations that focus on preservation since Freddie's existing lender network is not as well positioned to ensure the long term affordability of these properties.

<u>b) Fannie Mae and Freddie Mac's 2021 Duty to Serve Plans</u>
Due to the impacts of COVID-19, Fannie and Freddie were instructed by FHFA to submit their proposed activities and objectives for 2021 as a one-year extension of their 2018-2020 plans. The GSEs may propose to add a 2021 target for an existing objective or propose an entirely new objective.

LISC supports Freddie Mac's 2021 plan's commitment to continue their support of the low-income housing tax credit market by providing debt financing on properties with tax credits through **Objective A: Provide liquidity and stability through LIHTC loan purchases**. Freddie has grown their role in providing liquidity, stability and affordability in the LIHTC debt market through a focus on loan purchases. For year 4, Freddie established a slightly higher target than the last three years of performance. The LIHTC program is our nation's most important affordable rental housing subsidy source and Housing Credit projects need additional support in 2021 due to the impacts of COVID-19.

It is unclear how the LIHTC market will fare over time from the impacts of COVID-19. We know that many Housing Credit properties are doing okay at that moment although some are experiencing decreases in rent collections, higher operating costs, and construction delays. As Freddie notes in their plan, many borrowers will likely need extra time to get properties built and leased and need additional flexibilities. We commend Freddie Mac for continuing to be a source of strong liquidity for Housing Credit properties and encourage Fannie to continue providing support under **Objective #1: Increase purchases of mortgages secured by LIHTC properties** (Do What We Do Best).

LISC supports Fannie Mae's continued role in providing liquidity to preserve Section 8 properties under **Objective #1: Purchase loans secured by properties served by the Section 8 program** (Do What We Do Best). Affordable rental housing properties with Section 8 contracts house some of our nation's most low-income and vulnerable residents and are critically important to preserve. Fannie Mae has supported Section 8 capital and liquidity needs since the first year of the DTS plan and proposes to continue this activity with a seven percent increase over the baseline.

We thank the FHFA for the opportunity to provide suggestions and encourage FHFA and the GSEs to continue their commitment to this sector by increasing their role in preserving affordable housing and creating new markets where there are gaps. Please contact Mark Kudlowitz (mkudlowitz@lisc.org), LISC Policy Director, if you need additional clarification or follow up on any of the recommendations provided in this letter.

Sincerely,

Matt Josephs
Senior Vice President for Policy