Social Mission. Private Enterprise.

July 10, 2017

Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Re: Comment on Fannie Mae and Freddie Mac proposed "Duty to Serve" plans

Housing Partnership Network appreciates the opportunity to provide public comments on Fannie Mae and Freddie Mac's proposed plans to meet their "Duty to Serve" obligations under the Housing and Economic Recovery Act of 2008.

Housing Partnership Network is a collective of nearly 100 top-performing, high-capacity nonprofit housing developers, owners and financial institutions throughout the United States that have developed and preserved 373,600 homes, and served 9.8 million low-income people through housing, community facilities and services. HPN's mission is to help millions of people gain access to affordable homes and thriving communities that offer economic opportunity and an enhanced quality of life. Working with leaders in the field, HPN has built a network and a group of innovative social enterprises, like a property insurance company and a Real Estate Investment Trust, that deliver powerful results for the people and communities we serve.

HPN commends FHFA for the thoughtful and transparent approach it has taken in developing the "Duty to Serve" regulations and pursuing stakeholder engagement and comment on the Enterprises' performance. HPN members include Community Development Financial Institutions (CDFIs) as well as nonprofit developers of both single family housing and multifamily housing. HPN members work in the underserved markets targeted by the Duty to Serve statute, being especially active in the preservation of affordable housing. The work of HPN and our members can benefit greatly from the stability, liquidity and affordability that the Enterprises were chartered to provide to the residential market.

An overarching comment that we'd like to make on the Enterprises' proposed Duty to Serve plans is that partnerships could help the Enterprises meet the goals more efficiently. Over the past few decades, many different financial structures have been developed to finance affordable housing and community development projects. These vehicles combine mission focus and business acumen to create affordable housing. There are ways that the Enterprises can structure investments in these vehicles to be charter compliant, and more effectively leverage their resources.

The Enterprises should be investing debt and equity in CDFIs, loans pools, and public purpose REITs to meet their Duty to Serve obligations. FHFA should lift the prohibition on the Enterprises investing in CDFIs because the Enterprises could create deeper impact much more quickly by investing with mission-driven partners that are strategically making investments in strong borrowers to support community development with a systems-wide view based on market needs and opportunities. The research already completed by these CDFIs to understand their markets can be relied upon based on their experience; this creates a more efficient model and reduces the need for the Enterprises to complete the research and outreach included in the proposed plans. In all three of the Duties to Serve articulated by Congress – manufactured housing, rural areas and affordable housing preservation - there are existing, competent nonprofit partners that would benefit significantly from Enterprise debt and equity investments. FHFA should evaluate the Enterprises' achievements under Duty to Serve with an eye toward how well the Enterprises can take advantage of partnerships to extend their reach in to these markets and meet their Duty to Serve requirements.

Naturally Occurring Affordable Housing

A good example of an Enterprise partnership that would have a meaningful impact on affordable housing preservation is investments in unsubsidized rental housing that provides affordable rents. These properties are commonly referred to as Naturally Occurring Affordable Housing or "NOAH". As Freddie Mac's proposed plan states, "The unsubsidized affordable rental housing market, commonly known as naturally occurring affordable housing, is not formally or nationally defined at this time, though there have been various estimates of its size. It generally consists of B and C class (also known as one and two star) properties at risk of deterioration, demolition, or conversion to market rents. The Urban Land Institute estimates there are three million units of unsubsidized housing available that are affordable nationwide to people making 60%-100% of AMI, while CoStar estimates there are 5.6 million units in one and two star properties." (Page 69)

The challenge of preserving these properties motivated HPN members to come together to form the Housing Partnership Equity Trust (HPET) in 2013. HPN members were frustrated by being outbid by for-profit investors to buy affordable apartments. HPET is a Real Estate Investment Trust whose purpose is acquire and manage NOAH and keep the rents affordable over time. The 14 members of HPN who own HPET are AEON, AHC, BRIDGE Housing Corporation, Chicanos Por La Causa, CPDC, Eden Housing, Hispanic Housing Development Corporation, Homes for America, LINC Housing, Mercy Housing, NHP Foundation, NHT/Enterprise, Nevada HAND, and Preservation of Affordable Housing. HPET owns a portfolio of multifamily housing worth $280 million in six states, with investors including Prudential, Morgan Stanley, Citi, Ford Foundation, MacArthur Foundation, and Charles Schwab. HPET members manage the developments in the portfolio. HPET was founded to bring together the best nonprofit owners of affordable housing with strong institutional investors to preserve housing that would otherwise be converted to market rate. HPET is not the only mission-focused vehicle that invests in NOAH, and FHFA should encourage the Enterprises to research best in class investment opportunities and finance this affordable housing.

Fannie Mae has proposed that FHFA approve a pilot program to provide investment capital to non-LIHTC properties that support the preservation of multifamily rental properties that are affordable to workforce families. (Page 114) HPN endorses this activity as being consistent with Duty to Serve obligations to preserve the stock of affordable housing. Equity investments in HPET would enable the REIT to grow and acquire more of this critical housing stock. HPET reports that they continue to exceed their affordability targets with average rents on the portfolio being below rents affordable to families earning 60% of AMI. The Fannie Mae plan notes "Specifically, the share of rental workforce families that are housing cost burdened more than doubled, increasing from 10.0 percent in 2005 to 21.7 percent in 2015." (Page 114) HPET has access to plenty of debt capital but needs equity investment to respond to the challenge to keep rents affordable for this crucial stock of unsubsidized housing. Investments in affordable multifamily housing owned by strong, mission driven nonprofits would be an appropriate activity for either Enterprise to meet Duty to Serve. The Freddie Mac proposed plan also discusses the need to finance NOAH and proposes creating new mechanisms to finance small multifamily rental properties. (Page 86) This is another way to increase the flow of capital for the unsubsidized multifamily affordable rental inventory and it is an efficient and constructive way to meet Duty to Serve obligations.

Single Family Rental Housing
Another part of the unsubsidized rental housing inventory that needs to be addressed by the Duty to Serve plans is single family homes. According to the Urban Institute, more than half of all renters live in buildings with less than 4 units, and the number of renters in detached single family homes is up sharply since 2009. Single family rentals pose organizational challenges for the Enterprises because rental housing has usually been financed by their multifamily divisions, but the single family divisions have traditionally focused on homeownership. The Enterprises should be able to resolve these issues, but FHFA should emphasize the importance of mission driven ownership of single family rentals in the Duty to Serve assessment.

Fannie Mae has been approved by FHFA to provide liquidity for a large transaction with institutional investors that allows them to purchase thousands of single family homes to be used as rentals. One of the rationales for this transaction was that it would allow Fannie to learn a great deal about the single family rental market. This learning should be applied by the Enterprises to work with the nonprofit developer community to create pilots that further the goal of responsible ownership of single family rentals that benefits neighborhoods and renters. Currently high rents and shortages of affordable housing make it possible for owners of dilapidated properties to rent them without making repairs. This both contributes to neighborhood decline and to housing instability for the renters. As part of Duty to Serve, the Enterprises should have an obligation to figure out how to finance mission-driven operators of single family rental housing.

There are different ways the Enterprises could structure their single family rental activities. The Enterprises could provide financing to individual mission-driven nonprofits that purchase and rehabilitate distressed properties and then rent them. The Enterprises could do pilots to develop products that serve nonprofit borrowers and help them achieve scale to efficiently provide rental housing in cities with large stocks of single family homes that need repair. This would help stop the downward cycle of cash investors acquiring properties without improving the house or the neighborhood. Fannie Mae's Duty to Serve plan discusses revisions to the HomeStyle Renovation loan product that is geared toward individual homebuyers. Perhaps they should adapt this model to create a new product to serve larger nonprofits that have the capacity to scale up their acquisition and rehabilitation activities to stabilize neighborhoods and manage the housing as scattered site rental.

Another approach that could work would be for the Enterprises to work with a CDFI or consortium of nonprofits like HPN that could pull together different mission-focused operators of single family rental in several markets. A larger scale demonstration like this could have benefits like Fannie Mae's single family rental transaction this year. There would be geographic diversity across the portfolio as the

Enterprises develop products for mission-focused borrowers that are responsible operators of scattered site rentals. Freddie Mac's proposed Underserved Markets Plan for the rural housing market does include developing products to serve the single family rental market (Page 63) and these efforts should be encouraged and expanded. As subsidies shrink for traditional affordable housing developments, it would be worthwhile for the Enterprises to take the lead on developing new mechanisms to finance the most common type of housing for renters, working with responsible landlords.

Thank you for considering HPN's views. Please contact me if I can provide more information.

Sincerely,

Kristin Siglin
Senior Vice President, Policy