NATIONAL
HOUSING
CONFERENCE

October 28, 2014

Alfred M. Pollard, Office of General Counsel
Attention: Comments/RIN 2590–AA65
Federal Housing Finance Agency
Eighth Floor, 400 Seventh Street SW
Washington, DC 20024

Re: Comment on Enterprise housing goals, RIN 2590-AA65

Dear Mr. Pollard,

The National Housing Conference (NHC) appreciates the Federal Housing Finance Agency's (FHFA) revision and enforcement of the housing goals for Fannie Mae and Freddie Mac (the Government Sponsored Enterprises or GSEs). Families and individuals of modest means struggle with burdensome housing costs nationwide, both as owners and renters; one in four working renter households spends at least half of their income on housing.[1] GSE support of affordable rental and owned housing is hugely important as part of the overall strategy to meet Americans' housing needs.

From that perspective, we offer several comments on the proposed rule. NHC strongly supports having housing goals for the GSEs because of their value in promoting affordable housing. In summary (with more detail on each below), we suggest FHFA:

1. Enforce and refine housing goals for the GSEs even as the national conversation on legislative housing finance reform continues.
2. Continue to use the hybrid model of the benchmark method and market performance to determine single family goals.
3. Apply strong but achievable goals for multifamily affordable housing.
4. Add the new subgoal for small multifamily.
5. Allow loans to manufactured housing communities to count toward the goals if those properties provide sustainable affordable housing to residents over the long term.
6. Add the new requirement for single family rental reporting that separates 1 unit from 2-4 unit properties.

[1] "Housing Landscape 2014" from NHC's Center for Housing Policy describes housing cost burdens for owners and renters, available at http://www.nhc.org/media/files/Landscape2014.pdf.

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I. About the National Housing Conference

The National Housing Conference (NHC) represents a diverse membership of housing stakeholders including tenant advocates, mortgage bankers, non-profit and for-profit home builders, property managers, policy practitioners, realtors, equity investors, and more, all of whom share a commitment to safe, decent and affordable housing for all in America. We are the nation's oldest housing advocacy organization, dedicated to the affordable housing mission since our founding in 1931. As a nonpartisan, 501(c)3 nonprofit, we are a research and education resource working to advance housing policy at all levels of government in order to improve housing outcomes for all in this country.

II. Housing Goals

Fannie Mae and Freddie Mac are together the largest source of mortgage capital for homeownership and rental housing, and as such they play a pivotal role in assuring that affordable rental or owned homes are available to all in America. Continuing to implement housing goals ensures that these two providers of mortgage capital serve all segments of the market and influence other market players in that direction. Fannie Mae and Freddie Mac have an obligation to fully serve all markets and having housing goals provides security that low- and moderate-income families are served.

Strong and consistent enforcement of the affordable housing goals is essential now, even as our nation works through the complex decision-making needed for comprehensive housing finance reform. Replacing the temporary housing finance measures put in place in 2008 is essential and would be an opportunity to strengthen our national commitment to safe, decent, and affordable housing for all. But affordable housing need exists regardless of the pace of reform efforts, and we must make full use of the existing supports for affordable housing in the meantime.

A. Measurement of single-family compliance

The proposed rule seeks comment on how to determine compliance with the single-family goals for 2015-2017. Using solely the benchmark method requires using assumptions about the housing market that may be incorrect and would limit the Enterprises' ability to respond to unforeseen changes in the market. Using only market performance, on the other hand, would greatly reduce the Enterprises' incentive to innovate in ways that could encourage other participants in the primary or secondary market to better serve affordable housing need. We therefore agree with continuing to use the hybrid model with both the benchmark method and market performance method. This approach balances inherent limitations of forecasting with the need for meaningful incentives.

The recent history of GSE performance on both the benchmark and market tests demonstrates that the combined approach is necessary—in just the last four years, there have been surprisingly few instances where GSEs met both tests in a given year.[2] Having both tests in place acknowledges the fundamental uncertainty of the forecasts on which the goals rely and provides a framework through which FHFA can apply a fair evaluation.

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[2] Jim Parrott, Laurie Goodman, Wei Li, Ellen Seidman, and Jun Zhu, "Assessing the Proposed Housing Goals," Urban Institute, http://www.urban.org/publications/413270.html.

B. Single-family goals

NHC supports having housing goals to serve low- and moderate-income homebuyers, and we encourage FHFA to use the goals to improve the provision of affordable housing to underserved groups. In the wake of the Great Recession, the mortgage finance markets have overcorrected by relying on overly simple underwriting limits and broad limitations that exclude many responsible low- and moderate-income households from homeownership. Having subgoals for very low- and low-income borrowers and households in low-income areas will encourage credit to flow to these households and communities suffering from lack of access to credit. This environment of constrained mortgage lending makes these subgoals especially important.

C. Multifamily goals

The GSEs supply essential liquidity for multifamily properties that provide affordable housing, which is in short supply in far too many communities. NHC welcomes FHFA's proposal to not reduce Fannie Mae's goals from the 2014 level and to increase Freddie Mac's multifamily goals (which have for years lagged behind Fannie Mae's). Doing so would be a welcome change of direction from previous unwarranted reductions in multifamily production, which we opposed in 2013.[3]

In terms of the numerical goals for 2015-2017, consider the Enterprises' past performance. Fannie Mae and Freddie Mac have consistently exceeded their numerical goals for multifamily affordable housing. In 2013, Fannie Mae surpassed their housing goals by over 60,000 units, and Freddie Mac surpassed its goal by 40,000 units. Both GSE's multifamily businesses have increasingly financed units affordable to low- and very low- income renters. In short, the goals have been eminently achievable.

However, the goals are only meaningful incentives if they are achievable. The goals should encourage the GSEs to create an affordable multifamily business that is profitable and therefore sustainable and expandable, not simply a cost of doing business in multifamily more broadly. An unrealistic goal can distract from sustainability, or, in the extreme, set up a GSE for failure. GSE share of the overall market may well decline in the next few years due to strong interest in multifamily from other providers of capital such as banks and insurers. The GSEs should sustain their specialty in affordable multifamily finance even if their overall multifamily market share declines, but not in ways that are economically unsustainable. Thus, there may be room for incremental increases in the multifamily goals over the next several years, but those should be based on updated forecasts of GSE multifamily activity relative to the entire market.

We recognize that GSE financing, or indeed any debt-based capital subsidy, alone cannot create apartments with rents at deeply affordable levels. Rental assistance is essential to pay the ongoing operating costs of a multifamily property. Goals for affordable multifamily housing should therefore encourage the GSEs to find innovative ways to supply liquidity to affordable housing providers and that

[3] NHC comment letter to FHFA re: proposed reduction in Fannie Mae and Freddie Mac multifamily, October 8, 2013, http://www.nhc.org/media/files/NHC_10_2013_Comment_on_FHFA_Multifamily_reduction.pdf.

maximize the use of available rental assistance and other affordable housing subsidies. Activities could include providing forward commitment loans for new construction of affordable housing or support for substantial rehabilitation projects. Some pre-conservator initiatives that were effective at meeting gaps in the market should also be reconsidered, like lines of credit to mission-based entities who finance, build, or preserve affordable housing.

D. Small multifamily subgoals

NHC supports the creation of a small multifamily subgoal. Small multifamily properties provide a significant amount of affordable (often unsubsidized) housing, yet they generally lack consistent access to secondary market liquidity. We welcome Freddie Mac's plan for a loan product specifically for small multifamily. Fannie Mae has in the past also attempted to focus on this subset of the market. As yet, no secondary market entity has created a reliable or scalable means to finance small multifamily properties, making this an important area for future innovation. By creating the subgoal, FHFA can encourage the GSEs to expand their efforts in this space to meaningful scale. NHC believes the goals for 2015-2017 are appropriate given the small proportion of mortgages that Fannie Mae and Freddie Mac purchased that supported small multifamily properties, 3 and 1 percent respectively. The goals also require the GSEs to stretch to meet them, especially Freddie Mac, growing from approximately 2,400 small multifamily units in 2013 to 15,000 units in 2017.

E. Manufactured housing

Similar to small multifamily developments, manufactured housing is another important source of affordable housing, and also an area underserved by secondary market finance. We also recognize that the manufactured housing sector has a history of separating ownership of the manufactured home from ownership of the land in ways that have often been exploitative as lot rents increase quickly. NHC supports the idea that GSEs should receive credit for loans in this market if the properties financed provide sustainable affordable housing to residents over the long term.

F. Single-family rental reporting

NHC supports the addition of single-family rental reporting. Properties of 1-4 units provide more than half of the occupied rental stock and also provide a significant amount of affordable rental housing.[4] Better data on this sector will allow FHFA, the GSEs, and housing stakeholders to see the impact of GSE financing to these units. NHC would like to see data on 1 unit properties and data on 2-4 unit properties; this data should not be consolidated into a larger category. Having information on owner-occupied and investor-owned properties will also be helpful in understanding the role of the GSEs in this 1-4 unit housing stock.

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[4] Harvard Joint Center for Housing Studies, "America's Rental Housing: Rental Housing Supply," (2013), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ahr2013_03-supply.pdf

III. Conclusion

We offer these comments to assist FHFA in its implementation of the existing goals requirements and urge your renewed attention to the challenge of providing affordable housing. We would welcome the opportunity to discuss any of recommendations here further and offer Ethan Handelman, Vice President for Policy and Advocacy (ehandelman@nhc.org, 202-466-2121 x238) as a point of contact. NHC appreciates the work of FHFA in preparing this rule as well as the opportunity to provide comments.

Respectfully,

Chris Estes
President and CEO