Speaker 1: With that, I would now like to formally begin today's conference and introduce Jim Gray, moderator.

Jim Gray: Thank you. Thanks to all of the stakeholders who are making time in your busy schedule to participate in this DTS webinar that's designed specifically for state and local government officials. Please note that the presentation is being recorded today and a link to the PowerPoint slides will be emailed to all the participants immediately following today's presentation. The presentation along with the questions asked and the identities of the questioners and FHFA's responses will all be included in the public comment record for this rulemaking. Today, we're going to cover a lot of ground on the proposed rule, we'll summarize it, and then we'll answer the questions that you've submitted in advance.

Our summary will follow the structure of the rule itself. First, we're going to describe the framework of the rule which is based on a strategic planning concept. Second, and the bulk of the presentation, we'll be going through each of the 3 underserved markets; manufactured housing, affordable housing preservation, and rural housing, and summarizing certain activities that Freddie Mac and Fannie Mae will be required to consider in constructing their Plans. Note that Freddie Mac and Fannie Mae are sometimes collectively referred to as the Enterprises in this presentation. Third, we will briefly summarize the process for evaluating Freddie Mac and Fannie Mae's performance on their Plans. Then finally, we will answer the pre-submitted questions.

We encourage all of you to comment on the rule by submitting written comments by the deadline on March 17, 2016, that's St. Patrick's Day. The proposed rule would not prohibit or authorize any GSE activities. It only determines which activities are eligible for duty to serve credit, and we will come back to that point during the question and answer period. Now, I'm going to turn it over to Mike Price who will summarize how today's webinar will work.

Mike Price: Thank you Jim. First, the FHFA staff that has worked on this rule will take 30 to 40 minutes to summarize it. Following the summary, we're answering all of the questions that were pre-submitted. We'll read each question and provide the response. The question will be shown on your screens. Jim will give an overview now of the rulemaking.

Jim Gray: Thanks Mike. There are 3 important things to understand about what is included in the duty to serve and what is excluded. First, we are only talking about a specific duty to serve requirement created by Congress in the Housing and Economic Recovery Act of 2008. The term "duty to serve" is often used by stakeholders engaged in the debate on Housing Finance Reform. Today, we are not talking about the Enterprise's broad duty to serve in the context of Housing Finance Reform. We are only talking about the specific statutory requirement.

Second, the specific statutory duty to serve requirement addressed in this proposed rule requires Fannie Mae and Freddie Mac to serve very low, low, and moderate-income families. Activities that assist families above the moderate-income level are not eligible

for duty to serve credit. This is an important difference between the duty to serve and the Enterprise's housing goals where loan purchases in certain neighborhoods may receive credit even if the borrower's income is above the income limits. Third, under the statute, duty to serve credit is only available for activities that help families rent or buy homes in these 3 specific markets; manufactured housing, affordable housing preservation, and rural housing. Please keep these statutory constraints in mind as we go through the presentation on the proposed rule.

For those of you who were familiar with the original duty to serve proposed rule, there are important differences between that and this new proposed rule. I will not summarize all of the changes, but there are 2 that I want to draw your attention to. First, this proposal would require the Enterprises to seek public input on their Plans. Right now, FHFA is seeking public comment on this proposed rule but if the rule is adopted as proposed, every 3 years when Fannie Mae and Freddie Mac prepare a draft Plan, that Plan will require public input.

The second change from the prior proposed rule, this proposed rule has the concept of core activities that the Enterprises are required to consider in drafting their Plans. If an Enterprise chooses not to include any one of the core activities, public stakeholders will get to see the reasons the Enterprise chose not to include that core activity when the Enterprise seeks public input on its plan. Our final overview point is that FHFA has the responsibility under the law to annually evaluate and rate Fannie Mae and Freddie Mac's performance in each of these underserved markets and report the results to Congress. I'm now going to turn it over to John Foley who will outline the framework for the duty to serve, which is based on an Underserved Markets Plan concept that John will explain.

John Foley: Thank you Jim. Slide 4 illustrates the Underserved Markets Plan development process. The proposed rule will require each Enterprise to prepare an Underserved Markets Plan describing in detail how it will meet its duty to serve obligations. Plans would cover 3-year periods. After an Enterprise has prepared a draft Plan, an approximately 6 months with due process would commence. The first step on the process will be to post the draft Plan with confidential and proprietary information removed on FHFA's webpage for a 45-day public input period. During the input period, interested parties could submit written input on the Plan. Take note that the draft Plan public input period is part of the Plan approval process. It is not part of the proposed duty to serve rulemaking.

Underserved Markets Plan preparation would occur after the effective date of the final duty to serve rule. After the close of the public input period, FHFA would formulate comment on the Enterprise's draft Plan. The Enterprise would then revise this Plan based on FHFA's comments as applicable. Any public input could be considered by both FHFA and an Enterprise. We anticipate that the formal FHFA comment process will involve a back and forth exchange of multiple draft Plans. A Plan will become final after FHFA completes its review and issues a non-objection to the Plan. An Enterprise and FHFA would then post the final Plan on their respective website.

Slide 5 illustrates the roles of statutory, regulatory, and additional activities. Underserved Market Plans would comprise separate duty to serve activities. Each activity must be directed at 1 or more of the 3 underserved markets. Activities represent the most important aspect of the duty to serve framework. The core activities in the proposed rule have 9 categories of statutory activities set forth in HERA and 11 regulatory activities developed by FHFA in the proposed rule. Each of these activities will be discussed later in the presentation. While an Enterprise would not be required to include every statutory and regulatory activity in its Plan, if a Plan will miss the statutory or regulatory activity, the Plan must include a written explanation for its omission.

In addition to the statutory and regulatory activities, the proposed rule gives the Enterprises the ability to incorporate additional activities into their Underserved Markets Plans. We believe that the Enterprises will be able to use additional activities to creatively develop other ways to serve underserved markets and to keep the duty to serve current as markets evolve. The Enterprises currently offer financing to each of the 3 underserved markets and the years of experience should give them insights into additional ways to enhance their support for the underserved markets.

Next, slide 6 discusses objectives which are the sub-components of activities in the proposed rule. Once that Enterprise determines its Plan activities, each activity would then comprise specific, measurable objectives that provide deliberate steps for accomplishing the activity. Each objective must incorporate one of the 4 HERA statutory assessment factors; outreach, loan products, loan purchase, or grants and investments. Now, Mike Price is ... No? Chris Tawa will explain an additional criteria.

Chris Tawa: John, thank you. In addition to the 4 statutory assessment factors that John just described, as you can see on this slide, the proposed rule would also include residential economic diversity as a non-mandatory additional criteria. Under this, Fannie or Freddie may earn extra credit under the proposed rule's rating system for activities that support existing affordable housing properties in high-opportunity areas or for existing mixed-income properties in areas of concentrated poverty as those areas are declined by HUD by regulation. Inclusion of this criteria in the proposed rule is intended to support federal housing policies addressing deep concentration of poverty and creating mixed-income housing communities.

Next we'll turn to manufactured housing which is the first of the 3 underserved markets that are specified in the statute. The proposed rule would divide manufactured housing into 2 parts; financing for the units themselves and financing for manufactured housing rental communities. Mike Price will discuss the unit financing proposals, after which, I'll come back and discuss the rental housing proposals.

Mike Price: Thank you Chris. As most of you know, manufactured housing units can be titled and financed either as real estate or as personal property also known as chattel. The proposed rule would provide duty to serve credit for manufactured units financed as real estate but not for those financed as chattel. FHFA believes that Fannie Mae and Freddie Mac may be able to use their market presence to expand the use of real estate financing for manufactured homes. In fact, the Consumer Financial Protection Bureau

estimated that 65% of borrowers who owned their land and who took out a loan to buy a manufactured home placed on that land ended up with a chattel loan.

Now the advantages of real estate financing are: first, these mortgages perform well; second, the borrowers benefit from some consumer protection laws that aren't available for chattel borrowers. Of course we're also concerned that chattel loans have historically performed very poorly. Although chattel loans would be ineligible for duty to serve credit under the proposed rule, the proposed rule does seek comments on this. This concludes the summary of the manufactured housing unit portion of the presentation. Chris Tawa will now summarize how the proposed rule addresses financing for manufactured housing communities. Chris.

Chris Tawa: Thanks Mike. What I'll be addressing now is shown on slide 8. As everyone on the call knows, both Fannie Mae and Freddie Mac purchased blanket mortgages on manufactured housing rental communities, with Fannie Mae having participated in this market segment for about 15 years and Freddie Mac having entered it about a year and a half ago. Both Enterprises do somewhat less than about a billion dollars with the financing of blanket mortgages each year at this point. The proposed rule would encourage the Enterprises to focus their blanket mortgage activities on 3 specific types of manufactured housing communities that are defined in the proposed reg.

First is to provide credit for Enterprise purchases of blanket mortgages on smaller manufactured housing communities of 150 pads or less. Our research shows that communities of this size comprise over 80% of all manufactured housing communities in the country and most are owned by local and regional operators. However, the Enterprise's purchases of loans are disproportionately on larger sized manufactured housing communities owned by national operators and REITs. This provision would encourage the Enterprises to offer the benefits of their blanket mortgage purchases to a broader range of manufactured housing communities.

Secondly, is to provide duty to serve credit for purchases of blanket mortgages on communities with specialized ownership. These are defined as communities owned by their residents, by a non-profit, or by a governmental instrumentality any of which will preserve the community as an affordable housing resource. Now, this is admittedly a very small segment of the manufactured housing community market at this time, but we expect it to grow in the future especially with the Enterprise's support. Note the inclusion of state or local government or governmental instrumentality ownership. This is one of the places where the regulation intersects with the interests of local governmental entities.

Third is to provide duty to serve credit for purchases of blanket mortgages on manufactured housing communities that include certain tenant protections in their pad leases use of the property. Although let me emphasize and correct certain reports that have circulated, that inclusion of these provisions will not be required as a condition of obtaining an Enterprise-backed blanket mortgage and it's not a pre-condition for applying for one. The protection specified in the proposed rule include a tenant's right to sublease the pad in connection with the sale of their unit, a tenant's right to notice of

a planned sale or closure of a manufactured housing community amongst a number of other proposed protections that are detailed in the regulation.

Our research shows that these communities are subject to a broad range of state tenant protection laws, some of which are much weaker than others, and that certain basic protections such as those proposed in the rule should be universal and could be adopted more broadly with the Enterprise's support. Lastly, let me note that the proposed rule includes an estimation methodology for determining the affordability of a community so as to comply with the statutory requirement, given the limited information that is available about tenant incomes and their total housing cost in manufactured housing settings. Next slide.

That concludes our section on the manufactured housing market. Next I'll discuss the second underserved market segment specified in the statute which is affordable housing preservation shown on this slide 9. The rule proposes activity that would support affordable housing preservation for both the multifamily and single-family housing markets. First, let me discuss the proposed multifamily preservation activities that are listed in this slide, and then Jim, we'll be turning to Jim who will discuss the single-family activities.

The HERA statute specified 9 categories of affordable housing subsidy programs for the Enterprises to support. The rule proposes an additional 4 multifamily preservation activities or programs that FHFA believes are consistent with the larger goal for affordable housing preservation. We will go into some detail on the topics that are listed on slide 9. On slide 10 here, it shows the statutorily enumerated activities that were included in the statute. Of course, Fannie Mae and Freddie Mac are most active in the HUD Section 8 Rental Assistance Program as well as in financing projects that use federal low-income housing tax credits.

As noted, the statute specifies that the Enterprises are to support state and local affordable housing programs, and of course, many of the projects that utilize other federal assistance also rely upon state and local housing programs assistance as well. The statute however also makes reference to certain other type subsidy programs, grant programs, and FHA insurance programs as are listed on the slide. We believe that the statute intended for Fannie and Freddie to provide financing that supports the preservation of affordable housing that may have been created under these programs and we seek comments on other ways that the Enterprises could support preservation of affordable housing properties that were funded under the enumerated programs.

Slide 11 states a proposed regulatory activity supporting small multifamily rental properties. The small multifamily rental properties are defined as those with 5 to 50 units and as I think everyone on this call knows, these are a primary source of market rate housing that is affordable to low and moderate-income renters. The proposed regulatory activity would have the Enterprises buy pools of loans from small community and regional banks and intermediaries to support these institutions' ability to make new loans. The size of the institution as proposed or the limit on the size of the institution as

proposed is stated on this slide, but this is something for which FHFA seeks comment under the proposed regulation.

That's the small multifamily piece, let's go over to the slide that discusses now the multifamily energy efficiency. Rental housing affordability is determined by adding both the cost of rent and the cost of tenant paid utilities as a percentage of the tenant's income to assess the affordability of the housing cost. If energy efficiency improvements to reduce energy consumption and thus energy expenses are invested, that can help preserve housing that is more affordable to a tenant.

We have proposed 3 requirements for this proposed activity. First, that projections must show that the energy efficiency improvements will reduce energy and water consumption by at least 15% below current usage. Secondly, that there's a showing that the reduced utility cost that's derived from reduced consumption would not be offset by other charges from the landlord, specifically a rent increase that would take back these savings. Thirdly, that the reduced utility cost that come from the improvements and the reduced expenses for utilities must offset the upfront cost of the improvements within a reasonable period of time.

On slide 13, we show 2 other multifamily affordable housing preservation programs that we proposed be included as a duty to serve activity. These are both HUD programs that have been recently enacted by HUD subsequent to the enactment of HERA. First is the Rental Assistance Demonstration program, otherwise known as RAD, and secondly, the Choice Neighborhoods Initiative. Both are HUD programs that as I mentioned were enacted after the date of HERA, but may very well have been included within HERA had they existed at that time. RAD addresses distressed public housing. It converts the property's operating funds to project-based vouchers or Section 8 rental assistance contracts. This allows the Housing Authority to leverage other sources of capital for rehabilitation and preservation of public housing units.

The second HUD program as we've identified in the proposed reg as a regulatory activity is the Choice Neighborhoods Initiative. This is a successor to the HOPE VI program. Under this initiative, HUD provides grants for both planning and implementation in support of developing mixed-income housing and neighborhood upgrades and amenities. Financing that preserves affordable housing under either of these programs would be a regulatory activity. This wraps up the slides on the affordable housing preservation multifamily activities. Now I guess I'll turn it over to Matt who will discuss the first of the 2 affordable housing preservation single-family activities.

Matt Douglas: Thanks Chris. There are 2 regulatory activities for affordable housing preservation on the single-family side; energy efficiency and shared equity. I'll summarize the energy efficiency core activity which is similar to the multifamily energy efficiency activity that was just described by Chris. As with multifamily rental properties, preservation of affordable single-family properties may also encompass lowering home energy costs. Lowering energy costs can help a home owner to continue to afford mortgage payments and other housing costs and remain in their home or to help a tenant afford their rent. For a property to qualify for the single-family energy efficiency activity, it must be a

single family, 1 to 4 unit home where the loan is in the first-lien division. Thus, under this proposal, PACE loans are not eligible for credit.

To qualify for duty to serve credit, there must be verifiable and reliable projections or expectations that the improvements financed by the loan will reduce energy and water consumption by the home owner or tenant by at least 15%. In the case of a single-family rental property, the reduced utility costs must not be offset by higher rents or other charges imposed by the property owner. Lastly, the reduced utility costs derived from the reduced consumption must offset the upfront costs of improvements within a reasonable time period. We are seeking comment as to what a reasonable time period is under this definition. Now, Jim Gray will discuss the other affordable housing preservation single-family activity, shared equity.

Jim Gray: Thanks Matt. Shared equity is included in the proposed rule to encourage long-term preservation of affordable home ownership units to complement preservation of affordable rental housing already discussed. To be eligible, a shared equity program must be administered by 1 of 3 types of eligible program sponsors and eligible programs must do 3 things. First, the 3 types of qualifying shared equity sponsoring organizations are; community land trusts, other non-profit organizations, state or local governments or instrumentalities. This is another place which may be of special interest to state and local government officials because there is a specific role on duty to serve carved out for you.

Second, the 3 activities that all qualifying shared equity programs must do are; first, ensure that affordability is for 30 years. It's okay to have it for longer if that's permitted by state law, but it must ensure affordability for 30 years. Second, the program must monitor the units to ensure affordability is preserved over resale. Third, support the home owners to promote successful home ownership.

The slide that you see outlines the 3 principal strategies for preserving affordable ownership; deed-restricted programs, community land trusts, and shared appreciation loan programs. I'll give a brief explanation of each. Deed-restriction programs use a restricted covenant that is attached to the deed when a home is purchased at a below market price. The covenant ensures that when the property is resold, it will be at an affordable price, usually below market value, to another eligible household.

Community land trusts work similarly to the deed restrictions, but the land trust retains ownership of the land and uses a ground lease. A resale formula in the ground lease preserves the affordability by stipulating a below market value price for which the home owner may sell the home to an income-eligible buyer in the future. Third and finally, shared appreciation loans. When a home is sold at market value to an income-eligible purchaser but the program provides a no-payment second mortgage loan that's fully due upon sale and typically at 0% interest, the loan document stipulates the home owners share of the appreciation upon resale. The share of the appreciation that goes to the program is used to increase the shared appreciation loan amount and make the home affordable for the subsequent buyer.

Proprietary shared appreciation loans where an investor receives part of the equity in exchange for making a home affordable for a single buyer only do not preserve affordability and are excluded from the duty to serve. This concludes the summary of the core activities for the affordable housing preservation market. Please remember that the Enterprises may also propose additional activities to serve the underserved markets. Next, I'm going to turn it over to Matt Douglas, again, who will summarize the third and final underserved market, rural housing.

Matt Douglas: Thanks Jim. The first rural market slide addresses the need for a rural area definition so that FHFA can evaluate the Enterprise's activities in rural markets and measure their performance under their Underserved Markets Plans. FHFA considered 3 main criteria in developing a rural area definition. The definition must include rural residents living in outlying counties of metropolitan areas, remains stable over time, and third, be easy to implement by the Enterprises.

In developing its definition of rural area, FHFA considered other definitions of rural. However, each definition we looked at lacked one or more of the criteria set forth in developing a duty to serve definition. The proposed rule will define a rural area as a census tract outside of a Metropolitan Statistical Area or MSA as designated by OMB or a census tract in an MSA but outside of the MSA's urbanized areas and urban clusters as designated by the USDA's Rural-Urban Commuting Area codes.

This next slide covers 2 categories of rural housing activities. Under the first activity, the Enterprises would be required to evaluate their current activities in rural areas and identify opportunities to increase those activities. This evaluation could include the Enterprises working through federal and state programs and with local stakeholders to address liquidity needs in rural markets. The proposed rule defines eligible activities as Enterprise activities that facilitate a secondary market for mortgages on residential properties for very low-, low-, or moderate-income families in rural areas.

Examples of activities could include modifying their underwriting guidelines for rural loans eligible for purchase, increasing loan purchases in these areas, or developing strategies for extending education, outreach, and technical assistance to groups that support housing in these areas. These groups would include small and rural lenders, community banks, local housing finance agencies, and other community development financial institutions, as well as non-profit and for-profit organizations serving rural markets. Other activities could also include Enterprise marketing to lenders in rural areas in an effort to increase the number of approved lenders in those areas.

The second activity shown on the slide would also provide duty to serve credit for Enterprise support of financing of income-eligible housing for high-needs rural regions or high-needs rural populations. This activity would be a regulatory activity, so the Enterprises would have to address high-needs regions and populations in their Underserved Markets Plans by indicating how they choose to undertake the activity or the reasons why they will not undertake that activity.

The proposed rule will include definitions of high-needs rural regions and high-needs rural populations. A high-needs rural region is defined as any of the following regions provided they are located in a rural area. The regions are; Middle Appalachia, the Lower Mississippi Delta Region, and colonias. Colonias are primarily located within 150 miles of the US-Mexico border in Arizona, New Mexico, Texas, and California. These states and some counties within these states identify these communities as colonias for various housing purposes and programs.

A high-needs rural population is defined as any of the following populations provided they are located in a rural area. The populations are; members of federally-recognized Indian tribes located in Indian areas, or migrants or seasonal agricultural workers. FHFA chose these rural regions and populations because they are characterized by a high concentration of persistent poverty and substandard housing conditions. This concludes the summary of the rural housing markets. Now, I'll turn it back over to John Foley who will summarize how Fannie Mae and Freddie Mac would be evaluated in their performance under the duty to serve.

John Foley: Thank you Matt. You recall that we began this summary of the proposed duty to serve rule by setting up the duty to serve framework which largely revolves around Underserved Markets Plans. Then we summarized regulatory activities for each of the 3 specified underserved markets. Now I'll summarize how FHFA proposes to evaluate and rate Fannie Mae and Freddie Mac's duty to serve performance which is shown on slide 19. HERA requires FHFA to annually evaluate and rate each Enterprise's duty to serve performance and to report its conclusions to Congress. FHFA would evaluate the Enterprise's duty to serve performance based on how well the Enterprise has implemented its Plan during the evaluation year.

FHFA would set forth each evaluation criteria in a separate FHFA prepared evaluation guide covering each Enterprise's duty to serve Plan activities for each evaluation year. Evaluation guides would be posted on the respective Enterprise's website and on FHFA's website. Evaluation guides would allocate a range of potential scoring points. For example, a maximum of 10 and a minimum of 0 for each Plan activity. The total number of scoring points that could be allocated to all Plan activities grouped under a particular underserved market would be 100 points.

At the end of the evaluation period, FHFA would compare the evaluation guide criteria to an Enterprise's actual performance under its Plan and assign a final score to each Plan activity. The final scores for all of the Plan activities grouped under each underserved market would then be summed to produce an overall composite score ranging from 0 to 100. The composite score would be compared to a grid provided for in the evaluation guide.

Depending on where an Underserved Markets Plan composite score fell in the grid, an Enterprise would receive an overall rating of "Exceeds," "High Satisfactory," "Low Satisfactory," or "Fails" for that underserved market. During the evaluation year, each Enterprise will provide FHFA the quarterly data feeds. Each Enterprise would also meet with FHFA each quarter to discuss their progress. Finally, each Enterprise would prepare

reports for FHFA describing its duty to serve activity during the preceding year. That concludes the overview of the proposed rule. I'll now turn the discussion back to Jim.

Jim Gray: Thank you John. There are a few points I'll reiterate before we go into the question and answer period. First, the duty to serve only applies to activities serving very low-, low-, and moderate-income people in the 3 markets segments; manufactured housing, affordable housing preservation, and rural housing. Second, you need to submit a written comment to have your views considered by FHFA in the development of the final rule. Your comments must be submitted by March 17, 2016. Comments can be submitted electronically to the web portal as shown in slide 20, or in writing to the mailing address in the proposed rule. Please do not use the mailbox that you used to register for this webinar to submit your comments.

The presentation we have just been through will be emailed to each of you at the conclusion of the webinar. The presentation or a similar presentation anyways is posted on FHFA's website along with links to the press release, the fact sheet, the proposed rule, and a file on rural housing census tracts. Now, we will address your questions submitted in advance. We really appreciate your taking the time to hear our webinar presentation.

There are a number of concepts in the proposed rule that are directly applicable to state and local government which we highlighted during the presentation. We provided an opportunity for you to ask questions by submitting them in advance of this webinar. We received a number of questions, all of which will be included in our public comments record if you would like to see them. All the questions came from either the National Council of State Housing Agencies or the Vermont Housing Finance Agency.

First, the questions from the National Council of State Housing Agencies largely pertain to the Enterprises purchasing mortgage revenue bonds. The questions were along the lines of, will there be duty to serve credit for bonds issued by housing finance agencies? There is a provision in the proposed rule stating that duty to serve credit would be provided for purchasing certain bonds. This is 1282.38(c)(6), but it needs to be read in the context that duty to serve does not create any new authority for Fannie Mae and Freddie Mac to engage in activities. Mortgage revenue bond purchases are otherwise constrained by the mandate for the Enterprises to reduce and eventually eliminate their portfolios of loans and security. This section really only says that to the extent the Enterprises are able to purchase bonds, this is how the duty to serve credit would work. It is important that everyone understand that the duty to serve proposed rule does not authorize the Enterprises to resume purchasing bonds.

The next question from NCSHA, is the credit only for tax exempt bonds or also taxable bonds? Tax exempt bonds generally include income targeting of the underlying loans that would put them within the duty to serve statutory income targeting requirement. Taxable bonds would have to be income-restricted, consistent with the duty to serve income targeting requirements. If Fannie Mae and Freddie Mac were permitted to purchase taxable bonds, they would have to certify that each individual loan in the bond assists very low-, low-, or moderate-income families, consistent with the duty to serve

income targeting requirement. The third NCSHA area of questions, I'm going to turn over to Chris Tawa to answer.

Chris Tawa: Thanks Jim. This was a question about whether or not the Enterprises would resume purchases of low-income housing tax credits or investments of equity in tax credit projects. In recognition of the current tax credit market conditions which are very liquid, with prices for credits right now at an all-time high in virtually all markets, FHFA has not included anything in the proposed rule that would permit the resumption of tax credit equity investments or investor guarantees by the Enterprises, but since the duty to serve statute specifically lists low-income housing tax credits under the affordable housing preservation market and also includes investments generally listed under the assessment criteria, FHFA has requested comment in the proposed rule on whether it should consider permitting the Enterprises to make tax credit equity investments, and if so, on what terms? We're particularly interested in learning if there are underserved segments of the tax credit equity market such as for properties located in rural or non-CRA areas or for mixed-income properties that may benefit from the Enterprise's resumed participation in tax credit equity investments. Jim?

Jim Gray: The final question from NCSHA or area of questions, could an Enterprise design an additional activity under the duty to serve that would have the Enterprise work with a local government or housing finance agency? The answer to this is yes, they definitely could do that. Now, we will turn to the questions submitted by the Vermont Housing Finance Agency. The first one is similar to the question we just discussed, are there any proposals to work directly with housing finance agency to further duty to serve goals? The answer to this question is that by statute, duty to serve is focused primarily on markets rather than on providers.

As we outlined in the presentation, there are several specific places in the duty to serve proposed rule that emphasized the role of state and local government in housing finance agencies, and I'm just going to quickly go back over those. Manufactured housing tenant protections, state and local government approaches to this would be included, manufactured housing parks owned by residents or by state or local governments or instrumentalities which would of course include housing finance agencies. That is one of the required activities.

A third one, other comparable state and local affordable housing programs under the preservation section. Then fourth, the shared equity required activity. The eligible steward organizations must be non-profit or state or local governments or instrumentalities. Then in the rural section, local governments are contemplated to help figure out how to reach rural markets, and the definition of colonias defers to state and local government definitions. There are a number of ways that housing finance agencies are contemplated in furthering the duty to serve goal. Second question from Vermont, there were a number of questions about some of the specific terms of the small multifamily core activity. Chris, do you want to address this?

Chris Tawa: Yes. The rule proposes serving local and small lenders that provide financing for small multifamily properties by buying pools of loans that they have originated. Our research

into the small multifamily property market shows that small community and regional banks are a primary source of financing for properties of this size, especially in the smaller metro areas and in secondary and tertiary markets. However, these loans were often placed in the bank's portfolio which limits their ability to provide liquidity to the sector. If Fannie and Freddie were to purchase loan pools from these banks, it would give them new liquidity to make more loans to smaller properties in the areas that they served. Now the Enterprises already offer retail lending programs through their lenders for permanent financing on small multifamily properties for which they receive regulatory credit under the housing goals rule.

As to the question of the larger banks, the proposed rule would not limit the Enterprises to purchasing loans on small multifamily and rental properties from small community-based lenders in order to receive duty to serve credit. The proposed rule simply identifies this activity as a regulatory activity that the Enterprises must consider in developing their Underserved Markets Plan. If an Enterprise believes that the very low, low, and moderate-income families in the affordable housing market would benefit from the Enterprises purchasing loans on small properties from larger lenders, then the Enterprise may propose that as an additional activity in its plan. Indeed, we solicit comments on the comment period on the appropriate size of regional banks and community-based lenders which we should consider within the reg. Jim?

Jim Gray: Just one thing I would add to what Chris said is that you asked a lot of questions about the specific terms, and really the proposal only addresses the size of the properties that would qualify, small as 50 units, and the size of the lenders that would qualify. Any other terms of those transactions are left fully within the discretion of the Enterprises.

Chris Tawa: That's correct.

Jim Gray: They are not part of the proposed rules. The answers to those questions will really need to be worked out with the Enterprises after the final rule is in effect. The third question that Vermont asked is similar to the question we talked about from NCSHA, questions about the type of housing finance agency bonds that the Enterprises may now purchase. Even though we've already answered this question, I think if there's one thing that we want to be sure is not a misunderstanding that people walk away from this webinar with, it's this point.

Please do not misunderstand the proposed rule to create any new authority for Fannie Mae or Freddie Mac to purchase HFA bonds. The proposed rule would not create any new authority, it only discusses the duty to serve credit that would be available for bond purchases to the extent the Enterprises are permitted to make bond purchases. I think everyone on this call understands that the Enterprises are required to reduce their portfolios. That's the third question. For the fourth question, let me turn it over to Matt Douglas.

Matt Douglas: Sure. The question that was asked, why FHFA chose the definition we did for rural area. As discussed in the presentation, the 3 main criteria that FHFA used in proposing the definition of rural in the duty to serve proposed rule were; it should cover outlying

regions of metropolitan areas, some 50% of rural populations are found there, 2) it should be stable over time in order to support the 3-year Underserved Markets Plans of the Enterprises, and 3) it should be easy to implement and operationalize by the Enterprises to not delay delivery to the market. There was a second question in the rural market, and that was that the USDA or rural housing has an eligible property locator. The question was, is that something FHFA would provide?

FHFA has currently published on its website a data file containing all of the tracts in the United States that are eligible under the definition of rural area under the duty to serve proposed rule. As for an eligible property look-up tool itself, this is something we recognize could have benefits and we'll explore whether a tool like this could be best provided by the Enterprises, FHFA, or some other publicly-available tool. Currently, the Federal Financial Institutions Examination Council provides a geocoding system that allows any individual to type in a property address and find information including the tract code. This system, along with the data file on FHFA's website, allows anybody to determine if a property's eligible for duty to serve credit in a rural area.

Jim Gray: Great. That concludes the questioning. I want to reiterate, the reason that we planned this webinar was because we recognized the very important role that state and local government and housing finance agencies play in the housing finance market. We appreciate the very strong turnout that we had. We have now 78 participants and we think that's a good amount. We very much appreciate your participation. We encourage you to comment on the proposed rule. Thank you very much. Good bye.