

October 28, 2014

Alfred M. Pollard, General Counsel

Federal Housing Finance Agency

400 Seventh Street, SW., Eighth Floor,

Washington, DC 20024

Attention: Comments/RIN 2590-AA65

RE: RIN 2590-AA65 2015-2017 Enterprise Housing Goals

Dear General Counsel Pollard:

CEI (Coastal Enterprises, Inc.) appreciates the opportunity to comment on the Federal Housing Finance Agency’s (FHFA) proposed rule regarding affordable housing goals for Fannie Mae and Freddie Mac.

CEI is a Maine-based, 37-year-old Community Development Corporation (CDC) and Community Development Financial Institution (CDFI) providing financing, affordable housing development and development services to rural communities in and beyond Maine. Our mission is: *To help create economically and environmentally healthy communities in which all people, especially those with low incomes, can reach their full potential.*

CEI is a developer of affordable rental and homeownership housing and provides financing to other affordable housing developers. We also provide housing counseling and education services to potential and existing homebuyers, including prepurchase, foreclosure mitigation, financial capacity and HECM reverse mortgage counseling. CEI partners with other organizations in Maine and nationally to advocate for policies that support and further our mission of economic justice and equity. We are a member of the National Low Income Housing Coalition, the National Rural Housing Coalition, the National Community Reinvestment Coalition, the National Housing Resource Center and the Preservation Working Group. We are also a member of the Federal Home Loan Bank of Boston and a new NeighborWorks organization.

In the past several years, CEI has been concerned that proposed housing finance reform legislation did not include strong or explicit affordable housing goals. We appreciate the efforts of the FHFA to update and maintain affordable housing goals for both multifamily and homeownership.

As the demographics of the United States continue to shift toward lower-income households and a more racially and ethnically diverse population, eliminating barriers to homeownership, stimulating mortgage choice, and generating opportunities in the conventional mortgage market are critical issues for these communities, the housing industry, and the well-being of the nation’s economy overall.

Our organization commends the Federal Housing Finance Agency (FHFA) for recognizing that the Enterprises must lead the market in purchase and refinance opportunities for these consumers. However, we believe that the proposed Housing Goals fall short of ensuring that Fannie Mae and Freddie Mac will do enough to eliminate access barriers and liquidity challenges for loans made to our communities. The FHFA, through its policies and rulemakings, must recognize that, in the future, low- and moderate-income borrowers and people of color will no longer be a niche market, but likely the mortgage industry’s core consumers.

Fannie Mae and Freddie Mac remain the largest source of mortgage capital for both ownership and rental housing, and their underwriting and credit standards effectively determine who will, and who will not, receive non-government mortgage credit, as well as the terms upon which mortgage credit will be offered. The housing goals are a critical tool for encouraging the Enterprises to meet their obligation to fully serve all markets, especially low- and moderate-income borrowers. We encourage FHFA to set strong goals that will expand access to responsible, sustainable mortgage credit for low- and moderate-income borrowers and borrowers of color.

CEI’s comments largely echo those of the Center for American Progress (CAP) and the Urban Institute. In addition, we share the concerns of NCRC regarding the Agency’s estimated size of the low- and moderate- income (LMI) mortgage market and market for communities of color; the absence of demographic considerations in the financial model used to calculate FHFA’s market projections for LMI and communities of color; and the Agency’s conclusion that the included data in the existing financial model supports the conclusion that the LMI borrowers and borrowers choosing to live in communities of color will significantly decline over the next three years.

### Standard for Determining Compliance with the Housing Goals

### In light of concerns raised by the Center for American Progress and the Urban Institute, CEI urges FHFA, as stated in the CAP comment letter, “FHFA should retain a dual approach, setting aggressive benchmarks for the Enterprises while using the retrospective market standard for enforcement purposes.”

### Single-family Goals Levels

CEI shares CAP’s concern that “the single-family market estimations put forth by FHFA provide little useful guidance on where to set the single-family housing goals” and that the models appear to leave out some important variables. As CAP points out, the current market, on which these models are based, is dominated by the GSEs and is underserving target populations. CEI believes that the GSEs should set more ambitious goals for serving target populations rather than basing their models on current markets and practices.

For instance, FHFA could recalculate benchmarks over time based on existing market trends. Or FHFA could set more ambitious goal levels and adopt the two-part (market and retrospective) test for determining compliance. These approaches would encourage Enterprises to responsibly innovate and adopt policies that enable them to serve targeted populations while also relying on the market standard if goals are set too high.

### Multifamily Goals Levels

CEI urges FHFA to set stronger multifamily goals than are currently proposed. The Enterprises have consistently exceeded their multifamily goals in recent years, sometimes dramatically.

While it may be that the Enterprise share of the market will decline as private sources of capital become increasingly competitive, the overall size of the multifamily market is also likely to increase in coming years. And in recent years, units affordable to low- and very low-income renters have made up an increasing share of Fannie Mae and Freddie Mac’s multifamily business, a trend we can expect to continue given FHFA’s strong emphasis on the affordable segment of the multifamily market. Even if the Enterprises’ multifamily volumes decline to more normal levels, the number of affordable units they support will remain far higher than the goals they are currently subject to.

FHFA should also help the Enterprises identify gaps in the multifamily market, for instance in rural markets, and encourage them to serve these segments. For example, there may be room to innovate in supporting the construction of affordable multifamily properties through forward commitment loans or in supporting substantial rehabilitations of existing affordable housing.

FHFA should also encourage the Enterprises to become more flexible when working with mission-driven developers who are focused on affordable rental housing. This effort should include revisiting pre-conservatorship initiatives, such as those that provided lines of credit to high-quality mission-based entities who built or preserved affordable housing.

### Small Multifamily Subgoals

As a developer and investor in rural Maine, where the typical multifamily development is under 50 units, CEI especially commends FHFA for establishing small multifamily subgoals for the Enterprises. The small multifamily market is an important source of affordable housing. CEI speaks from experience when we confirm that it is extremely challenging for small multifamily properties to access affordable, fixed-rate financing, due to a lack of standardized lending products, a more disparate range of borrowers, and relatively fixed origination costs despite smaller loan sizes and origination fees. Freddie Mac’s announcement that it will begin offering a product specifically targeting small multifamily properties is an important step toward better serving this market. FHFA’s subgoals will also incent the Enterprises to continue to innovate in their service of small multifamily properties. As the GSEs’ approaches to the small multifamily market evolve, it will be important for FHFA to monitor the effectiveness and risk of Enterprise efforts.

### Manufactured Housing Communities

Manufactured housing is a critical source of affordable housing, especially in rural states like Maine. We believe that Enterprise support for manufactured housing communities should count under the multifamily housing goals, subject to certain conditions. Enterprise purchase of loans to Resident Owned Communities (ROCs) should count towards the housing goals in all cases, as these communities are explicitly organized to give their residents a security of tenure as well as affordable lot rents. However, FHFA should design a standard to determine whether lot rents in ROCs are affordable to very-low income residents, or merely low-income residents.

We also believe the Enterprises should potentially receive goals credit for loans to investor-owned communities, but only under strict conditions. In particular, residents of these communities need to be given certain assurances of the security of their land tenure and access to other consumer protections, including:

* + Requirement of good cause for eviction;
  + A term of at least one year renewable in the absence of good cause;
  + Provision of advance written notice of rent increases as well as information about policies on rent increases (including any formulas on how rent increases will be calculated);
  + A grace period for rent payments;
  + A right to cure;
  + No prohibition on the formation of resident associations and the right to associate and organize;
  + Language giving a resident association the right to be notified and to present a competing purchase offer before the sale or closure of the community; and
  + Provisions permitting transfer of the home to a new owner by the borrower or the lender in the event of default

We also believe FHFA should design a standard to determine whether the lot rents in investor-owned communities are affordable, including for low-income and very-low income residents who own their manufactured home but rent the land underneath it.

### Single-family Rental Reporting Requirements

We welcome FHFA’s proposal to require the Enterprises to report more information on their support for single-family rental properties. Despite the smaller amount of attention such properties receive, 1-4 unit properties contain more than half of all occupied rental units.[[1]](#footnote-1) This is certainly true in Maine, where large multifamily developments are a rarity and 1-4 unit rentals are the norm. FHFA’s proposal will enable us to understand more fully the role that the Enterprises play in financing such units. It will also help us better understand whether Enterprises support for these properties plays an important role in their overall support for affordable rental housing.

We encourage FHFA to have the Enterprises separately report information on rental units in owner-occupied and in investor-owned single-family properties. FHFA should also require separate reporting of information on rentals in 1-unit buildings and in 2-4 unit buildings. We also encourage FHFA to report information on the number and UPB of their acquisitions of mortgages on investor-owned 1-unit and 2-4 unit buildings (using table 1A).

Thank you again for this opportunity to comment.

Sincerely,

Laura Buxbaum

Director, Housing Resource and Policy Development

1. Harvard Joint Center on 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> [↑](#footnote-ref-1)