March 17, 2016

Mr. Alfred Pollard
General Counsel
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, D.C. 20024

*RE: Federal Register Vol. 80, No. 243: "Enterprise Duty To Serve Underserved Markets; Proposed Rule" / RIN 2590-AA27*

Dear Mr. Pollard:

The undersigned organizations[1] thank you for the opportunity to comment on the revised proposed rule implementing the Duty to Serve requirement established by the Housing and Economic Recovery Act of 2008.

We commend the Federal Housing Finance Agency for its willingness to re-propose this rule in light of the significant changes to the housing finance environment that have taken place since the proposal issued in 2010. The new proposal more closely reflects legislative intent, and we appreciate that it incorporates important suggestions that have been made by housing and consumer advocates.

While some of our organizations have submitted comments on other topics covered by the rule, this comment letter focuses on how the Enterprises can make a difference in neighborhood stabilization through the Duty to Serve rule. Specifically, we address three topics:

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[1] The National Community Stabilization Trust (NCST) is a non-profit organization that aims to keep homeowners in their homes when possible, restore vacant and abandoned properties to productive use, and prevent neighborhood blight. Established in 2008 by several leading community development organizations and civil rights groups, NCST has enabled the acquisition of more than 20,000 properties by local organizations committed to neighborhood stabilization, and we now manage a portfolio of more than 1,000 deeply distressed mortgage notes. Our organization marries deep policy knowledge with hands-on operational expertise in default servicing, asset management, technology platforms, data analysis, and REO operations.

The Center for Community Progress is a national non-profit organization dedicated to building a future in which entrenched, systemic blight no longer exists in American communities and works with communities to address the full cycle of property revitalization, from blight prevention, through the acquisition and maintenance of problem properties, to their productive reuse.

CFED is a multi-faceted organization working at the local, state and federal levels to create economic opportunity that alleviates poverty.

The Housing Partnership Network is a business alliance of nearly 100 entrepreneurial, high- capacity nonprofits that develop and finance affordable housing all across the country.

- How the rule can support state and local neighborhood stabilization efforts and foreclosure and abandonment prevention.
- The usefulness of shared equity models in stabilizing neighborhoods.
- The importance of residential economic diversity in stabilizing neighborhoods.

Additionally, we answer some of the proposed rule's more general questions and offer suggestions for implementation and enforcement.

## I. The Duty to Serve rule should provide credit for Enterprise programs supporting state and local neighborhood stabilization programs.

In the proposed rule, FHFA states that "comparable state and local programs for single-family affordable housing that could receive Duty to Serve credit include local neighborhood stabilization programs (NSP) that enable communities to address problems related to mortgage foreclosure and abandonment through the purchase and redevelopment of foreclosed or abandoned homes for very low-, low-, or moderate-income households."[2] The rule also supports extending this effort to foreclosure and abandonment prevention.[3]

Our organizations strongly endorse counting Enterprise support for state and local NSP programs as a regulatory activity for the purpose of Duty to Serve credit. Many state and local programs are struggling due to the expiration of the HUD Neighborhood Stabilization Program several years ago.

Neighborhood stabilization activities include but are not limited to the following:

- Acquiring and rehabilitating homes and residential properties that have been abandoned or foreclosed upon.
- Establishing and operating land banks.
- Demolishing blighted structures.
- Redeveloping demolished or vacant properties as housing.
- Providing mortgage products for potential home buyers, especially those that support rehabilitation in low-value markets such as "community seconds."

Below, we provide recommendations for Enterprise activities under Duty to Serve that can support neighborhood stabilization.

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[2] Enterprise Duty to Serve Underserved Markets; Proposed Rule, 80 Fed. Reg. 243 (Dec. 18, 2015) (12 C.F.R. § 1282) (hereinafter "Proposed Rule"), p. 79198.

[3] "FHFA believes that any NSP or other state or local foreclosure and abandonment prevention programs that benefit very low-, low-, or moderate-income families could receive Duty to Serve credit." *Ibid.*

### *A. FHFA should add a "Loan/Property Disposition Assessment Factor" to the "statutory assessment factors."*

Before discussing the ways in which the Enterprises can support state and local NSPs, we would like to provide some input on **Question 4** posed by FHFA: "Are the requirements for Objectives discussed above appropriate, and should there be any additional requirements?"

While the bulk of Enterprise support for the Duty to Serve underserved markets will occur through their loan purchases and products, the disposition of distressed loans or properties held in Enterprise portfolios also can have a significant effect on neighborhoods. Disposition methods, timing, or pricing that supports continued or renewed occupancy, rehabilitation of distressed properties, and/or demolition of unsalvageable properties can play a critical role in stabilizing low- and moderate-income neighborhoods. Responsible disposition prevents blight, stabilizes home values, and supports a well-functioning mortgage market.

Conversely, disposition methods, timing, or pricing that even unintentionally leads to more vacant, abandoned housing will increase blight, reduce the value of neighboring homes, heighten the risk of additional foreclosures, burden municipalities with increased costs even as they suffer from decreased tax revenue, and ultimately lead to nonfunctioning mortgage markets.

Both Enterprises are currently disposing of large numbers of REO properties and non-performing loans as part of their charge under the Conservatorship to reduce their portfolios. Since this disposition activity has the potential to either support or undermine the other objectives of the Duty to Serve rule, we propose the creation of a new "statutory assessment factor" termed "Loan/Property Disposition Assessment Factor."

Currently, this factor would apply mainly to the duty to preserve affordable housing, but one could imagine a circumstance in which disposition also could affect the rural or manufactured housing markets in the event of downturns in those sectors.

Note that while virtually every other activity under Duty to Serve depends almost entirely on whether the Enterprises successfully incent or support activities undertaken by the primary market, Fannie Mae and Freddie Mac have significant control over what happens with respect to disposition of their own portfolios.

### *B. Duty to Serve "preservation of affordable housing" should include the physical preservation of affordable housing stock.*

In **Question 27**, FHFA asks, "Are there other options on how to interpret preservation of multifamily or single-family affordable housing that FHFA should consider?"

We recommend that the FHFA definition of "preservation" include activities that lead to the literal "preservation" of the physical integrity, habitability, and functionality of properties in neighborhoods with naturally occurring affordable housing. Activities that should receive credit encompass both rehabilitation of homes that can be saved and demolition of blighted properties when that demolition preserves the habitability and safety of neighboring homes.

### *C. Efforts to ensure responsible disposition of REO stock, such as the Neighborhood Stabilization Initiative program, should count for Duty to Serve Credit.*

Enterprise disposition of REO stock in distressed neighborhoods can make a significant difference for the health of the neighborhood and availability of safe, high-quality, affordable housing. If community buyers can access these properties for rehabilitation or demolition as necessary to support their local neighborhood stabilization plans, they can transform this REO into affordable ownership or rental housing or demolish it in a safe and targeted way if the property is not salvageable.

On the other hand, if Enterprises sell their REO on the open market, they have no control over the future of these properties. While new owner occupants may purchase some properties, especially for distressed and low value properties in hard-hit neighborhoods, there is a significant likelihood that an outside investor will purchase the property, and in some cases may not have any plans to rehab or redevelop it.

To encourage better outcomes for communities, we propose providing the Enterprises with Duty to Serve credit for participating in the Neighborhood Stabilization Initiative (NSI).

Both Fannie Mae and Freddie Mac currently participate in NSI, through which they offer local nonprofit organizations an opportunity to purchase their REO for use in neighborhood stabilization efforts before those properties go on the open market. In addition to providing this "first look" for local groups, NSI also offers discounts off the fair market value price that reflect the savings in marketing and holding costs that the Enterprises would otherwise incur on these properties. NCST is proud to be a key partner with the Enterprises in this important effort.

Initially piloted in Detroit, Michigan, and Cook County, Illinois, the NSI program has supported neighborhood stabilization efforts through more than a thousand homes purchased through the program,[4] NSI has recently expanded to 16 additional metropolitan statistical areas (MSAs).

For the Enterprises to receive credit for NSI, we recommend including target success rates for the program. The reason for this recommendation is that NSI

[4] So far in these markets, price agreement has been reached on 1,021 homes and 755 of the sales have closed.

expansion areas have significantly lower levels of success than the initial pilots due to key design differences between the pilots and expansion program. Duty to Serve credit would only be appropriate if the performance of the program more closely resembled the performance of the pilot areas. We suggest using the "conversion rate" as the success measure, which is the percentage of REO properties flowing through the program for which a local program requests a price that ultimately get purchased. Targets could be structured as overall targets or value-band targets.[5]

Providing Duty to Serve credit under this constraint will give the Enterprises the incentive to make necessary changes to the program to improve conversion rates.[6] A more effective program will result in a significant difference for neighborhood stabilization efforts and prevent the abandonment and neglect of properties that can result when investors outside the community acquire them.

FHFA should also consider how the credit could help NSI reach beyond the current 18 markets included in the program. Distressed REO stock exists in many other areas facing significant challenges with foreclosures and abandonment – from East to West, and North to South – with smaller cities and even some rural areas becoming increasingly depressed.[7] There are additional geographies where this program could assist with neighborhood stabilization, including Indianapolis, Memphis, Las Vegas, Milwaukee, Kansas City, Youngstown, Louisville, and Buffalo just as a few examples.

### *D. The Enterprises should restructure their bulk sales of non-performing loans to promote neighborhood stabilization.*

Beginning with Freddie Mac in 2014 and joined by Fannie Mae in 2015, both Enterprises have been auctioning pools of nonperforming loans to private buyers. These pools contain seriously delinquent mortgages, which are the category of loans that can most threaten neighborhood stability if handled improperly. We propose that FHFA provide Duty to Serve credit for note sales programs that dispose of loans posing the most risk to neighborhoods in a way that supports neighborhood stabilization.

Our experience with distressed mortgages and vacant properties has taught us that different categories of delinquent mortgages pose different risks, thereby

[5] While it would be important to structure the program before deciding on required success rates, conversion rates in the pilot programs could constitute an appropriate basis for selecting the targets.
[6] Important changes include, but are not limited to, providing adequate price discounts for low-value properties, customizing price caps to accommodate higher-cost areas, and ensuring that fair market values are set appropriately.
[7] *See* Michael Zonta, Sarah Edelman and Andrew Lomax , "Interactive Map: The Uneven Housing Recovery," (Washington: Center for American Progress, November 2, 2015), available at https://www.americanprogress.org/issues/housing/news/2015/11/02/123038/interactive-map-the-uneven-housing-recovery/

necessitating customized treatment for optimal results.[8] A happy alignment of interests between private investors and neighborhoods is most likely when investors purchase owner-occupied, higher value mortgage notes located in strong housing markets. In those cases, it is generally economically optimal for the investor to keep the homeowner in their home if possible, through a loan modification or other type of settlement, or to provide the owner with a foreclosure alternative, such as a short sale or deed in lieu of foreclosure.

However, mortgages on low value properties, on properties in disrepair, and on vacant properties require different treatment, because in these instances, there may be little economic incentive for investors to help struggling homeowners remain in their home or to repair or rehabilitate properties for sale to new owner-occupants. Instead, the incentive may be to abandon the properties either pre- or post-foreclosure judgment, especially if there is a tenant who continues to pay rent regardless of poor conditions or if the property is already vacant and damaged.

Instead of selling lower value, distressed, or vacant properties in large auction pools, we suggest the Enterprises receive Duty to Serve credit for arranging to transfer these notes to an appropriate end user. That may include auctions of small pools aimed at nonprofits (which both Enterprises are already doing) or direct sales/donations of very low-value notes to nonprofits or other entities that have demonstrated a commitment to neighborhood stabilization (municipalities, land banks, or others in the affordable housing industry).

These transfers should be made to organizations with experience appropriate for the types of notes involved. For example, notes on occupied homes should go to organizations with housing counseling and loss mitigation experience, while notes on vacant properties should go to land banks or organizations with relevant experience in managing that stock.

Additionally, in many cases, the value and status of these properties means that the Enterprises will be taking what are essentially negative bids for the notes because the properties require extensive repair (beyond what can be recouped in a subsequent sale) or demolition. In that case, the Enterprises should transfer these notes along with an appropriate financial contribution based on their own costs avoided by making the transfer. We caution against “reverse auctions” that ask bidders to compete to see who can handle low-value notes most inexpensively. In most cases, these costs are not highly variable, and neighborhoods can be significantly harmed when well-intentioned organizations attempt this difficult

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[8] The National Community Stabilization Trust and the Housing Partnership Network are partners in the Community Restoration Corporation, which manages over 1,000 low-value, non-performing loans obtained from financial institutions and Freddie Mac. These notes were conveyed as donations along with additional cash contributions to cover the disposition costs associated with a positive neighborhood outcome. The cash contributions reflect the cost savings realized by the note donor based on avoiding the need to take the note through foreclosure and engage in post-foreclosure maintenance and marketing activities.

work without the necessary financial resources.

Finally, as noted above, even if the Enterprises appropriately categorize and dispose of these notes, strong guidance to all note buyers (private and public alike) is important to ensure that homeowners, neighborhoods, and municipalities are not left worse off by the Enterprise's decision to sell them. That means that buyers should offer the same loss mitigation suites offered by Enterprise servicers, should have the same foreclosure timelines as Enterprise servicers, and should have the same prohibitions on lien release and walkaways as Enterprise servicers.

### *E. Activities that increase access to credit and capital for homebuyers and nonprofits should receive Duty to Serve credit.*

One of the most challenging obstacles to neighborhood stabilization is the lack of access to credit for potential owner-occupants. Over the past several years, FHFA, Fannie Mae, and Freddie Mac have all turned their attention to the need to increase access to credit, and both Enterprises have created products aimed at filling the market gap. However, in the neighborhood stabilization context, there's a need not only for typical mortgage credit, but also for products that support repairs or rehab work and for products or processes that account for the breakdown in markets that occur when appropriate comparison data is not available to support appraisals.[9]

Further, the Enterprises should receive Duty to Serve credit for purchasing loans made to homebuyers in neighborhoods requiring stabilization, much as FHFA has recommended they receive for purchasing loans on small multifamily properties.

An example of a type of loan purchase that could count toward the credit would be the HFA Preferred product, which enables Fannie Mae and Freddie Mac to purchase loans made by state Housing Finance Agencies that involve down-payment assistance or soft second liens. The Enterprises also should develop the capacity to purchase single-family acquisition/rehabilitation loans made by the HFAs beyond the current 203(b) program.

For loans to owner-occupant homebuyers, a precondition of Duty to Serve credit should be that the borrowers receive housing counseling from an accredited counseling organization.[10]

FHFA also could provide Duty to Serve credit for Enterprise loan modifications to homeowners in distressed neighborhoods, since keeping homeowners in place prevents vacancy and stabilizes neighborhoods. However, NCST recommends providing this type of credit only for modifications that place homeowners back into

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[9] *See* "Meeting the Financing Needs of Opportunity Neighborhoods in Ohio: The Credit Gaps Landscape and the Role of Community Development Financial Institutions," (Greater Ohio Policy Center, March 2015), available at http://greaterohio.org/files/pdf/jpmc-reportfinal3116.pdf.

[10] For more suggestions regarding housing counseling, *see* separate comment letter dated March 17, 2016, submitted by the Housing Partnership Network.

an equity position, because those homeowners are more likely to invest in their homes, neighborhoods, and local economies.[11]

Similarly, we recommend Duty to Serve credit for Enterprise investments in CDFIs (as well as other nonprofits and/or land banks) that support nonprofits seeking to acquire, rehab and resell or rent vacant single family properties. Just as the Enterprises historical investments in Low-Income Housing Tax Credit Funds helped normalize that form of investment in the equity-financing world, CDFI support can help transform the financing of neighborhood stabilization activities. Providing significantly increased access to low or market rate funding for nonprofit affordable housing developers will encourage scalable operations, which in turn would enable those developers to access trades or materials with negotiated terms and/or payments that would lower their total development cost.

## II. Shared equity homeownership products can be a key tool in stabilizing neighborhoods by preserving affordability while also enabling wealth-building.

Shared equity programs create access to affordable homeownership for low- and moderate- income households, while ensuring that these homes remain affordable to subsequent purchasers. Our organizations agree with FHFA's assessment of the ways neighborhoods benefit from shared equity programs:

> They can provide housing at affordable prices for long-standing homeowners in the area that help to counter price escalation in gentrifying communities. In addition, shared equity transactions often provide a loss buffer in the form of the difference between the market value and the amount the buyer pays, which can reduce foreclosures, while reducing the relative amount of loss in the value of the home if foreclosure does occur. By reducing foreclosures, shared equity transactions not only improve the outcomes for homebuyers, but also help maintain values of other homes in the neighborhood, thereby enhancing outcomes for the entire community. Shared equity transactions may also permit a household to afford a home in a neighborhood with better schools or other amenities that would otherwise be unaffordable for the household. In particular, shared equity programs can make it possible for teachers, firefighters, police and other modest income workers to buy homes in the community where they work.[12]

[11] *See* Atif Mian and Amir Sufi, *House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again*, for the proposition that consumers who are underwater on their mortgage – even those who are current on their mortgage payments – consume less, thereby weakening local economies.
[12] Proposed Rule, p. 79204.

As neighborhoods stabilize, it is essential to preserve the affordability of that housing stock to prevent displacement and unhelpful gentrification. The timing is perfect to ramp up use of shared equity models, especially given the challenges many within these communities face when seeking access to credit and capital for down payments. Not only do shared equity programs provide an option for those unable to qualify for a traditional mortgage, but they provide the potential to keep those homes affordable for future buyers as well, even if property values in the neighborhood begin to rise. Therefore, we support the inclusion of shared equity housing as a mandatory Regulatory Activity and answer **Question 66** in the affirmative.

A particularly fruitful area to explore could be the relationship between land banks or other land-holding municipal structures and land trusts or other entities supporting shared equity housing. As these land banks or similar structures accumulate vacant and abandoned homes, they can take advantage of this ownership by experimenting with ways of providing shared equity housing.

At present, a significant obstacle to innovation and success in the shared equity field is the lack of a national model, structure, or set of guidelines that help programs scale and coordinate across geographies. Happily, Enterprise involvement typically has the effect of providing a national infrastructure that can support the scaling of innovations.

With respect to **Question 65**, we support limiting Duty to Serve credit for programs that preserve affordable homeownership for multiple owners. We are not sure if 30 years is the correct measure, but the property should remain affordable for a significant period of time. We also recommend that, at least at the outset, Duty to Serve credit be limited to shared equity programs run under the aegis of either nonprofit or public entities, although we do not oppose some involvement of mission-focused for-profits in the overall program. And, we support requiring housing counseling for purchasers of shared equity products.[13]

In short, the marketplace for shared equity financing products remains underdeveloped. The Enterprises have the capability to stimulate growth for these loan purchase products in the market by simplifying the requirements for shared equity financing and making automated underwriting more widely available. By designating Enterprise support for shared equity homeownership programs as a Regulatory Activity, the Enterprises will be required to address shared equity in their Underserved Markets Plans. We commend this effort as an important mechanism for stabilizing communities, building home-ownership wealth in low- and moderate-income households and maximizing the potential of the existing inventory of property held by nonprofits, land banks, municipalities, and similar entities.

[13] See Comment Letter filed on March 17, 2016, by the National Housing Resource Center.

## III. Residential economic diversity stabilizes neighborhoods and promotes economic mobility.

The economic isolation of very low-, low- and moderate-income households in distressed areas perpetuates a number of social ills, including neighborhood blight and instability. We strongly support providing "extra credit" for efforts to promote residential economic diversity, but underscore that such extra credit should be applied to neighborhood stabilization programs that will bring economic diversity into currently distressed areas, not just to efforts to move individual families out of distressed areas into higher opportunity areas. We further recommend that efforts to reduce racial and ethnic isolation receive similar credit.

We note that the housing goals track Enterprise performance in financing mortgages in "underserved areas," which are specifically defined in the housing goals rule. This definition was adjusted in HERA to make it more consistent with the requirements for lending under the Community Reinvestment Act (CRA) for primary market lenders in order to align the incentives for both primary and secondary markets. FHFA should address how it expects the underserved areas housing goal and the incentives for increasing economic diversity to interact with one another and with the CRA requirements imposed on primary market lenders.

## IV. Responses to General Questions about Duty to Serve Framework.

The following are responses to some of FHFA's general questions regarding the Duty to Serve framework.

**Question 1**: *How much discretion should the Enterprises have in selecting activities--Core Activities and Additional Activities--to serve the underserved markets?*

FHFA has proposed that Enterprises do not have to include all Core and Additional activities, but that they must consider each Core activity and explain their thinking for both FHFA and public review if they decide not to include it. We believe that this is a sensible approach that offers the necessary flexibility for each Enterprise to decide the most effective means to pursue activities in each of the designated market areas while requiring transparency in how the decision was reached.

**Question 2**: *Should FHFA establish specific Regulatory Activities for the underserved markets, or should the Enterprises have broad discretion to decide how to serve these markets?*

FHFA should specify Regulatory Activities as long as the Enterprises have broad discretion in choosing which Regulatory Activities to pursue, provided that the choices and reasoning behind them are disclosed in a Plan and subject to both public and FHFA review.

**Question 3**: *Are the proposed Regulatory Activities, as identified in the proposed rule for each of the underserved markets and described further below, appropriate for accomplishing the Duty to Serve objectives?*

The proposed Regulatory Activities are appropriate. However, in our comment, we have suggested additional activities that might potentially be classified either as Statutory Activities or Regulatory Activities.

**Question 5**: *Should Duty to Serve credit be given under the loan products assessment factor for an Enterprise's research and development activities that may not show results in their initial phase, but which may be necessary for long-term product planning and development for underserved markets?*

FHFA should give Duty to Serve credit for research and development activities that relate to Duty to Serve activities. Much of what the Enterprises do is extremely complex, and an inability to receive credit for research and development could skew Duty to Serve activities toward those that require little development. The need for effective and sometimes extensive research and development is heightened when trying to reach markets that remain persistently underserved despite many previous efforts to reach them.

However, FHFA should remain vigilant that the Enterprises not misclassify research and development aimed at more typical markets for the purpose of receiving Duty to Serve credit.

**Question 7**: *Is there an alternative mechanism to an Underserved Markets Plan that would better enable FHFA to evaluate the Enterprises' Duty to Serve obligations?*

The Underserved Markets Plan is an appropriate way to set a framework for evaluating the Duty to Serve obligations. However, it's important that the Plan not become a mechanized exercise in checkboxes and templates that elevates form over substance. Part of the congressional motivation in prohibiting numerical goals for the Duty to Serve obligation was to move the Enterprises beyond what had become a housing goals regime focused more on hitting numbers than on true innovation to penetrate underserved markets. While evaluation can be more challenging when it is focused less on numbers, FHFA can and should dedicate the staffing and time to understanding what the Enterprises are really doing and what impact they are having out in the community. This work will require regular engagement by FHFA as well as the Enterprises with those working on the ground in the underserved markets.

**Question 8**: *Should the Enterprises be required to prepare Underserved Markets Plans for terms with a period other than three years?*

We support the three-year term of the plan as proposed in the rule, since the nature of the activities lends itself to a multi-year approach. However, the rule also requires a series of regular reports and check-ins, which FHFA should use to drive continuous improvement even within a plan period. As noted above, FHFA should adequately staff the Duty to Serve effort as an ongoing activity.

**Question 9**: *Should public input be sought on the Enterprises' proposed Underserved Markets Plans and, if so, is there a more effective approach than the proposed approach?*

FHFA proposes to require the Enterprises to publish their proposed plans for a 45-day comment period by the public, followed by a further 60-day period during which FHFA would comment on and request changes to the proposed Plans. We strongly support the requirement for the Enterprises to post their proposed plans for public comment.

However, we suggest longer timelines for both comment periods. Public comment periods should be at least 60 days if not more to level the playing field between large, well staffed trade associations and individuals or smaller advocacy groups. FHFA may also consider giving itself 90 days if that would prevent missing deadlines – a missed deadline could call into question the effective date of a Plan.

Additionally, we suggest some sort of requirement that the Enterprises review public input and address those comments in some way, even when they choose not to make changes based on the comments.

As for permitting the Enterprises to modify their Plans during their term, we support the opportunity to modify the Plans as long as there is public notice as well as a brief period for public comment unless the change is de minimis or mandated by external circumstance such as legislation.

**Question 80**: *Is there an alternative approach to evaluation of Enterprise Duty to Serve compliance that would enable FHFA to better measure the Enterprises' Duty to Serve compliance?*

We strongly support the proposed requirement for FHFA to provide an Evaluation Guide to the Enterprises for each program year. FHFA should make this guide widely available so the public understands the proposed basis for evaluating Enterprise efforts. Beyond the Evaluation Guide, the entire evaluation process should include meaningful input from and participation by the public.

**Question 81**: *Should FHFA consider a different rating structure (e.g., a rating structure with fewer or more ratings tiers)?*

FHFA should expand the proposed four ratings categories to five – “Exceeds,” “High Satisfactory,” “Satisfactory,” “Low Satisfactory,” and “Fails.” This expansion will enable FHFA to apply a more nuanced approach to its review of Enterprises’ activities under their respective Plans. It also gives more flexibility in how the proposed extra credit for activities that promote residential economic diversity can be applied. Success in this factor could move an Enterprise from "Low Satisfactory" to "Satisfactory," which is a more nuanced and effective way of encouraging Enterprises to focus on this factor.

## V. Conclusion

Our organizations greatly appreciate the opportunity to comment on the Proposed Rule and FHFA's consideration of the above recommendations. Duty to Serve is an important tool that will provide guidance and incentives to the Enterprises to meet their obligations to serve underserved markets. More specifically to our organizational missions, we think Duty to Serve can help ensure the Enterprises play a greater role in stabilizing and revitalizing struggling communities and combatting blight. Please let us know if you have any questions, and we look forward to the final rule.

Sincerely,

National Community Stabilization Trust

Center for Community Progress

CFED

Housing Partnership Network