Testimony of David Sanchez, Director of Research and Development, National Community Stabilization Trust

Federal Housing Finance Agency Listening Session

Duty to Serve: Affordable Housing Preservation

July 13, 2021

Thank you for the opportunity to speak today. My name is David Sanchez and I'm the Director of Research and Development at the National Community Stabilization Trust, or NCST, a national non-profit that supports families and communities by restoring distressed single-family homes, strengthening neighborhoods, and increasing sustainable, affordable homeownership. NCST does this by facilitating sales of distressed homes to community-based partners, providing technical assistance and capital for single-family rehab, and conducting federal policy advocacy grounded in our knowledge of distressed housing markets.

Today, I will focus in detail on Fannie Mae's proposed distressed properties objectives, and to Freddie Mac's corresponding lack of objectives in the distressed properties market. However, I would like to begin with broader remarks on the as-yet unfulfilled promise of Duty to Serve. While the DTS program is still in its infancy, the Enterprises' accomplishments during their first Plan cycles demonstrate that increasing liquidity and investments in these underserved markets is indeed possible -- if difficult. Given today's housing supply shortages, rising home prices and rents, and persistent economic and racial inequality, the Duty to Serve program is more important than ever.

We believe FHFA needs to make Duty to Serve a central priority for the agency and the Enterprises. Ultimately, FHFA needs to evaluate every policy decision through the lens of its impact on underserved markets, affordable housing, and community investment.

Unfortunately, FHFA has made a series of policy decisions that make it much more difficult for the Enterprises to achieve their statutory duty to serve. We call on FHFA to immediately revisit three sets of policies:

- First, we encourage FHFA to revisit its pricing and capital policies. FHFA should start by reducing or eliminating the loan level pricing adjustments or LLPAs, which charge additional fees to lower-wealth borrowers and those with less than pristine credit. FHFA should also reconsider its Adverse Market Refinance Fee and the unnecessarily large capital buffers in its 2020 capital rule, both of which unnecessarily increase the cost of credit.
- Second, we urge FHFA to allow the Enterprises to make equity or equity-like investments that support their affordable housing mission. This could include both investments in high capacity CDFIs as well as investments particular transactions that support the production or preservation of affordable housing. While certain limits on the GSEs' investment authorities may be prudent, we encourage FHFA to be transparent about any limitations it places on these activities.
- Third, FHFA must allow and encourage the Enterprises to pursue pilots that test new strategies for serving underserved markets.

As FHFA reexamines these larger policy decisions, we also encourage the agency to continue to build on the transparency of the Duty to Serve program. First and foremost, we encourage FHFA to release its

2018 and 2019 Duty to Serve ratings at both the market and the objective levels. Second, we encourage FHFA to enhance the Public Use Database to include loan-level flags at the objective level. Third, we also encourage FHFA to continue publishing the Enterprises' quarterly and annual DTS reports, as well as its own loan purchase dashboards. Finally, we encourage both FHFA and the Enterprises to consider opportunities to work with stakeholders in the underserved markets outside of these public listening sessions.

While the Enterprises' proposed Plans contain a number of objectives that will positively affect underserved markets, the Plans lack the ambition present in the Enterprises' first three-year Plans *and* fail to meet the moment. Among the stronger proposed elements include commitments at both Enterprises to purchase loans to preserve properties supported by the USDA Section 515 program, to purchase loans and provide technical assistance for high needs rural areas or populations, and to purchase Manufactured Housing Community loans with tenant pad lease protections. Each of these activities, however, would be stronger if the Enterprises set higher corresponding loan purchase targets.

While there are many shortcomings in the proposed plans, perhaps the most significant is that neither Fannie Mae nor Freddie Mac proposes objectives related to manufactured housing titled as chattel. Enterprise purchases of chattel loans would help low-income consumers access lower-priced financing and, critically, could bolster the consumer protections available in this market. We believe that the Enterprises can serve the chattel market safely and that there is no excuse not to do so.

Ultimately, we believe that the Enterprises should be required to revise their proposed plans substantially before they are approved by FHFA later this year.

<u>Distressed Properties</u>

I'll now turn my attention to distressed properties markets, which is NCST's primary policy focus. We applaud Fannie Mae's inclusion of two distressed property objectives in its proposed plan, and we encourage Freddie Mac to reverse its decision not to include activities in this market. By providing liquidity in the distressed properties market, each Enterprise can help prevent vacancy and neighborhood blight, strengthen cities and communities, and provide additional opportunities for affordable homeownership. This activity is particularly important given the impact of the pandemic on communities. Close to two million borrowers still remain delinquent on their mortgages, and many communities of color – including so-called "middle neighborhoods" where many residents have GSE mortgages – have been hit hard both by COVID-19 itself and the virus's economic impact.

Fannie Mae's proposed activities focus on research, outreach, or product development to encourage neighborhood stabilization and owner-occupant purchases of distressed properties. Unfortunately, Fannie Mae's Plan lacks detail about what the Enterprise intends to do over the next three years. This lack of detail makes it extremely difficult for FHFA and outside stakeholders to judge the ambition and likely impact of these activities.

As Fannie Mae revises and begins implementing its Plan, NCST encourages Fannie Mae to pursue concrete action in three areas:

- The first is access to acquisition and renovation capital. Access to affordable and stable capital is a constant need for non-profits and other mission minded entities that acquire and rehabilitate distressed properties, and it has never been more important than during today's inventory

crisis, where rapid home price appreciation and legions of cash buyers are making it harder than ever for these nonprofits to compete in the acquisition-and-rehab market. During its first Plan, Fannie Mae piloted a product that would allow non-profits to use Fannie Mae's acquisition-rehab mortgages, but the pilot was ultimately unsuccessful for reasons that seem solvable. We urge Fannie Mae to try again.

- The second is REO property repairs. Fannie Mae reports that its initiatives to repair a greater share of its REO properties are helpful in encouraging owner occupant purchases of these properties. We would appreciate more data that substantiates this claim. In addition, we encourage Fannie Mae to ensure that its property repair programs are making all needed upgrades to major systems that can reasonably be anticipated in the next few years, because protecting first-time homebuyers and LMI families from large capital outlays in their first few years of homeownership is critically important.
- Third, we encourage FHFA and Fannie Mae to closely monitor the success of Fannie's Community First REO sales platform, which provides a first look purchase opportunity to mission-minded developers. As NCST knows first-hand, the success of this first look sales program depends on Fannie Mae's policies regarding property sales prices and the ability of prospective purchasers to access or inspect properties. Another important ingredient is providing technical assistance to non-profit rehabbers, as well as carefully monitoring and tracking their work and outcomes.

Residential Economic Diversity

Finally, I would also like to comment briefly on the Enterprises' proposed Residential Economic Diversity activities. While it is good that both Enterprises have committed to supporting loan purchases in this market, neither has proposed ambitious goals given their past purchase volumes, and Freddie Mac's goals are especially weak. During the first plan cycle, the impacts of each Enterprise's RED-related policy enhancements and research were mixed. Unfortunately, the proposed plans are even less ambitious in this regard.

While the existing Duty to Serve rule's extra credit for Residential Economic Diversity is well-intentioned, it is clear that more must be done to incent the Enterprises to equitably serve households and communities of color. In 2020, 3.06% of Fannie Mae's owner-occupied loan purchases were to Black borrowers. At Freddie Mac, the percentage was 3.28%. This share has not exceeded 5% at either Enterprise in any year since conservatorship began.

Federal law includes a provision whereby the FHFA Director may recommend to Congress additional underserved markets to which DTS should apply, and FHFA should consider asking Congress for authority to focus on homeownership for communities of color.

In the meantime, we hope that as the Enterprises revise their Plans they propose "Additional Activities" that meaningfully advance racial equity within the three underserved markets.

Thank you for the opportunity to comment on the Enterprises' proposed Duty to Serve plans.