National Community Stabilization Trust

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The National Community Stabilization Trust (NCST) is grateful for the opportunity to comment on modifications to Fannie Mae and Freddie Mac's Duty to Serve plans for 2020 and the extension of the Enterprises' activities and objectives for 2021.

NCST is a national, non-profit organization that works to restore vacant and abandoned properties to productive use, prevent blight, and support affordable homeownership. Established in 2008, NCST has enabled the rehabilitation of over 27,000 REO properties, including over 7000 properties acquired from Fannie Mae and Freddie Mac through the Neighborhood Stabilization Initiative.

While a great deal of work under Duty to Serve still remains, NCST fully understands why FHFA has made the decision to allow the Enterprises' to extend their current Duty to Serve plans for another year rather than to begin another three year Duty to Serve plan cycle in the midst of the economic disruptions caused by the COVID-19 pandemic. Pausing the process of drafting new Duty to Serve plans for a year allows the next cycle to begin with a clearer sense of the economic challenges that the Enterprises can help address with their Duty to Serve work.

Why distressed properties matter:

While NCST strongly supports the overall Duty to Serve program, today I will focus mainly on the Regulatory Activity that addresses the purchase or rehabilitation of distressed properties. NCST commends Fannie Mae for including this activity in its 2018-2021 Duty to Serve Plan. These activities are likely to be even more important in future years in the wake of the economic downturn caused by the pandemic. Widespread job losses inevitably lead to evictions and foreclosures, which result in distressed and vacant properties that damage of the fabric of communities.

Even though the flow of REO properties is much lower now than it was at the height of the Great Recession, the numbers are likely to increase because of the pandemic. In addition, vacancies continue to plague numerous communities regardless of the rate of REO flow, especially communities of color, those in legacy cities, and those with low income families. As Alan Mallach notes in his report *The Empty House Next Door,* although vacancies have declined from the height of the crisis, they are still significantly elevated. Additionally, the US housing stock is aging and repair needs are accumulating. According to the Joint Center for Housing Studies, 40% of the US housing stock is at least 50 years old. [1] In neighborhoods with lower income or more elderly residents, the homes have often experienced years or even decades of deferred maintenance. Many of these homes were rented out by slumlord investors who failed to make repairs even while tenants were in place.

Duty to Serve progress on distressed properties to date:

NCST has seen some progress resulting from Fannie Mae's Duty to Serve activities, including improvements to its renovation loan product for homeowners and ongoing efforts to create a Renovation Loan product that can be used by nonprofit developers. We encourage Fannie Mae to persist in these efforts to improve its Homestyle Renovation Loan products by working with nonprofits to carry out single family home rehabilitations. Access to capital for renovation financing is a challenge for many of the smaller single-family developers that NCST works with, and we welcome Fannie Mae's efforts to address

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[1] *Improving America's Housing 2019,* Joint Center for Housing Studies at Harvard University, *available at* https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Improving_Americas_Housing_2019.pdf.

this market failure. However, we are sorry that Fannie Mae does not propose any modifications to its 2020 work with distressed properties and proposes an extension of current activities for 2021. Access to renovation financing for distressed properties is a perennial challenge, in part due to the continued reticence of lenders to participate in this line of business.

One technical yet important issue I would like to elevate is that Fannie Mae's work in this area has been hampered by FHFA's unduly restrictive definition of "distressed properties." FHFA has the authority to broaden its definition of what counts as a distressed property beyond short sales, foreclosure sales, and REO, to include distressed properties from multiple other channels, including tax foreclosures, receivership, nuisance abatement, and asset forfeiture. FHFA should also consider treating properties in poor condition (C5 or above) as distressed regardless of their acquisition channel.

As we look forward to 2022 and beyond, NCST believes that Neighborhood Stabilization is a critical issue that merits being included in both Enterprises' Duty to Serve plans. To this end, NCST recommends both Enterprises undertake the following initiatives:

- Continue to focus on promoting renovation mortgages for nonprofits as well as for homeowners, including more effectively recruiting lenders to offer these mortgages.

- Invest in CDFIs that finance nonprofit acquisition and rehab of distressed properties.

- Pilot new approaches to encourage lenders to make small-balance mortgages.

Finally, please note that nonprofit and other mission-focused developers are facing existential challenges right now due to the lack of inventory in the market caused by the pandemic itself and what will have been a 9 month foreclosure moratorium by the end of 2020. Whenever foreclosures begin again, it is critical to ensure that these properties are made accessible to these developers. NCST will ensure that its Buyers are able to access Freddie Mac properties, but because we no longer serve as a vendor to Fannie Mae, it will be important for FHFA to oversee the performance of Fannie Mae's new Community First program.

Reflections on process and outcomes in Duty to Serve:

As we reflect on the evolution of Duty to Serve since 2016, we would like to offer a few observations about both the process and the outcomes to date. We would like to thank FHFA for the robust and inclusive process it has undertaken beginning in 2016 with the revised proposed rule for the Duty to Serve requirement. Throughout its implementation of Duty to Serve, FHFA has run a remarkably open and accessible process, enabling external stakeholders to provide input into activities of the utmost importance to individuals and markets currently underserved by the Enterprises. We greatly appreciate this level of engagement. The stakeholder outreach, the listening sessions, and the Duty to Serve website have all made it much easier for stakeholders to understand what the Enterprises are being asked to do by FHFA, and what their plans are.

That said, it's also important to have significant accountability and incentives that reward the Enterprises for tackling tougher challenges. It also would also be helpful for the plans to emphasize outcomes rather than to belabor process steps. It is less important that the plans be prescriptive about how a goal is to be accomplished than they be clear about metrics and outcomes. In future Duty to Serve plans, it would be helpful for FHFA to emphasize that the plans should be concise, which would make them more accessible to stakeholders. Fannie Mae's plan is 179 pages; Freddie Mac's plan is 259 pages; even the Evaluation Guidance is 46 pages. Freddie Mac's 2018-2020 plan includes a very helpful overview chart at the beginning and a useful executive summary. This is a good model for future Duty to Serve plans and we encourage FHFA to require this format. Finally, FHFA should organize its website so that both the plans and the evaluation and reporting on the plans are easily found to increase transparency and accountability to the public.

Thank you again for the opportunity to share our thoughts concerning the Duty to Serve requirements. NCST stands ready to partner with both Enterprises to assist them in conducting outreach and implementing new products and approaches in those neighborhoods whose housing markets remain weak.