July 10, 2017

Director Mel Watt
Federal Housing Finance Agency
400 7th St SW
Washington, DC 20024

Re: Comments on the Enterprises' Duty to Serve Plans

Dear Director Watt:

The Center for Responsible Lending, The Leadership Conference on Civil and Human Rights, NAACP, National Coalition for Asian Pacific American Community Development, National Fair Housing Alliance, and National Urban League file this comment in response to Fannie Mae's and Freddie Mac's (the Enterprises) proposed Underserved Markets Plans. Thank you for the opportunity to provide input on the Enterprises' plans. The content of the proposed plans is critical to determining whether the Enterprises are fulfilling their Duty to Serve obligations in each underserved market – manufactured housing, affordable housing preservation, and rural markets. Our comments are focused primarily on the Enterprises' single-family homeownership purchase objectives and activities. Additionally, we wish to echo other consumer and housing advocacy organizations' comments regarding particular aspects of the manufactured housing, rural, and shared equity markets.

As we have emphasized in previous comments, the goal of the Duty to Serve process is to encourage and hold the Enterprises' responsible for serving these underserved markets. The Enterprises' accountability is buoyed by FHFA ensuring that the Enterprises develop plans that produce meaningful impact. Although the Enterprises play an important role in designing pilot programs, developing new product offerings, and engaging in outreach to influence lender behavior, loan purchases are the single most important aspect of the Enterprises' activities. The Enterprises' loan purchases are what provide liquidity in the mortgage market and ensure that lenders can replenish their supply of capital funds and make additional mortgage loans to borrowers.

We are concerned that the Duty to Serve plans do not include enough specific, measurable loan purchase objectives and that the objectives in the plans comprise too few loan purchases in these underserved markets. In total, we estimate that all the loan purchases outlined in these plans will make up *less than 3%* of all single-family Enterprise loan purchases over the next three years, virtually unchanged from 2016. Furthermore, it is possible for the Enterprises to fully meet some objectives but *decrease loan purchases* relative to 2016 levels in some underserved markets. Indeed, some loan purchase objectives reverse trends of increasing loan purchases. The Duty to Serve plans should catalyze more Enterprise activity in doing what they do best – purchasing loans – in order to strengthen lending to underserved communities.

We are particularly concerned about the Enterprises' loan purchases that support homeownership among underserved populations. Unfortunately, this is not clearly identified in the plans. Homeownership is the primary way that most middle-class families build wealth and achieve economic stability. Wide access to credit is critical for building family wealth, closing the racial wealth gap, and for the housing market overall. For many low-to-moderate income (LMI) families and people of color in particular, a home represents the only asset that a family may ever own and the equity in their homes constitutes a larger share of personal wealth. Home equity accounts for only 30% of the net worth for wealthier households, but constitutes 67% for middle to low income households.[1] Home equity accounts for 53% of African-American wealth as compared to 39% for whites.[2] The Enterprises play an important role in providing access to homeownership in these underserved markets. For example, Enterprise market share exceeded that of Ginnie Mae in rural areas in 2015.[3]

Loan Purchase Objectives

Our overarching concerns are: 1) both plans should include more objectives with measurable loan purchase goals, and 2) the loan purchase objectives can and must be higher.

More objectives need clear loan purchase goals supporting homeownership

Only 15 of the 131 objectives proposed by Fannie and Freddie in their Underserved Market Plans call for the purchase of single-family loans, including for home purchase and refinance lending. Freddie only includes four loan purchase goals related to increasing homeownership out of 61 total objectives. Their plan does not include any loan purchase objectives in the Affordable Housing Preservation area. Purchasing loans to facilitate homeownership is the main function of the Enterprises and what they do best. Unfortunately, these activities are only a small part of the plans. See Appendix Table A1 for a listing of all the single-family homeownership related objectives in both Duty to Serve plans.

Most, but not all, of the years within the 15 objectives shown in Appendix Table A1 include measurable, numeric targets. However, the targets in Freddie's plan are confusing and potentially mask a decrease in actual loans on the ground. Freddie targets changes in market share, not clear numeric loan purchase goals. For example, the loan purchase targets in Objective 1A in the Manufactured Housing Area of Freddie's plan are a calculated percentage

[1] Brendan Greely, U.S. Homeowners Are Repeating Their Mistakes, Bloomberg, February 14, 2013, available at https://www.bloomberg.com/news/articles/2013-02-14/u-dot-s-dot-homeowners-are-repeating-their-mistakes
[2] Thomas Shapiro, Tatjana Meschede, and Sam Osoro, The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide, Institute on Assets and Social Policy, (February 2013), p.3., available at http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf
[3] See Figure 3 in Testimony of Mr. Michael D. Calhoun Before the United States Senate Committee on Banking, Housing, and Urban Affairs, Principles of Housing Finance Reform, June 29, 2017, available at http://www.responsiblelending.org/research-publication/mike-calhouns-testimony-principles-housing-finance-reform

increase of their baseline market share (0.32%).[4] At the very highest (an 8% increase, which according to the plan would earn them 50 points in year 3), this market share would climb to just 0.35% from 0.32%, lower than Freddie's market share in 2014 (0.41%). The plan goes on to project an overall decrease in funded loans over the three-year period. As a result, it is highly likely that the number of loans supporting manufactured housing homeownership will decline from the 4,647 funded in 2016, even if Freddie meets the highest possible plan targets. Given focused investment and attention to this particular market, it is reasonable to expect Freddie could increase the number of purchases of these particular loans, especially since they make up such a small percentage of overall activity, even if overall trends are decreasing.

Finally, the Enterprises do not distinguish between loans for home purchase or refinance in their targets. Lending to facilitate home purchase is particularly important for supporting homeownership and should be specifically discussed in the plans.

The loan purchase goals can and must be higher

We estimate that the number of loan purchases targeted by these plans is approximately 350,000 loans,[5] assuming no loan counts for multiple objectives.[6] However, we estimate that the Enterprises will purchase approximately 4 million single-family mortgages per year for a total of approximately 12 million single-family loan purchases over a three-year period.[7] Therefore, we assume that if the Enterprise meet all of their purchase goals over the next three years, their efforts will account for less than 3% (2.86%) of all single-family loan purchases by the Enterprises over this time. This is virtually unchanged from 2016 activity. The baselines given in these plans show that approximately 115,230 loans would have fallen under the Duty to Serve objectives listed in Appendix Table A1. The Enterprises purchased a total of 4,119,000 single-family loans in 2016, with Duty to Serve loans making up 2.80% of these loans.

Another way of putting these loan purchase goals into context is to look at the change from Year 1 to Year 3 in the program. We estimate the total loan purchase goals related to the 15 objectives listed in Appendix Table A1 for each year (See Table 1). They are: 112,963 in Year 1,

[4] See Appendix Table A1 – Manufactured Housing - Concept Scores Relative to Targeted Range – Cumulatively in Freddie's Plan.

[5] To generate this estimate, we added up all loan purchase targets for the 15 objectives listed in Appendix Table A1. For Freddie's targets, we assumed the total number of loans purchased in each year equaled the number purchased in 2016.

[6] It is very likely that a single loan could be counted under more than one objective since there is considerable overlap in the markets. For example, Fannie's plan highlights that roughly 20% of the housing stock is manufactured housing in the high needs rural regions of Middle Appalachia, the Lower Mississippi Delta and the Colonias. As a result, it is likely that there will be some overlap between Fannie's loan purchase objectives in these two underserved markets.

[7] Based on 2016 10K filings by Fannie Mae showing purchases of single family mortgages totaled 2,523,000, available at http://www.fanniemae.com/portal/about-fm/investor-relations/quarterly-annual-results.html and by Freddie Mac showing purchases of single family mortgages totaled 1,596,000 available at http://www.freddiemac.com/investors/financials/sec-filings.html

118,170 in Year 2 and 127,359 in Year 3, compared to 2016 activity of 115,230.[8] The increase over the three-year period is less than 15,000 loans. Furthermore, in total this would be just an 11% increase over what would be expected if the Enterprises continued 2016 activity for the next three years. As mentioned before, this is a high-end estimate representing the upper bound of all given ranges and assuming no loans are double-counted. Using the lower bound, the increase is just a 3% increase from continuing 2016 activity.

Table 1: Low- and High-end Estimates of total single-family loan purchase targets in Fannie Mae and Freddie Mac Underserved Market Plans compared to 2016 activity

	Year 1		Year 2		Year 3		Total
	Total loan purchases	Change from 2016	Total loan purchases	Change from 2016	Total loan purchases	Change from 2016	Total loan purchases
Low-end estimate	111,046	(4,184)	115,228	(2)	122,578	7,348	348,852
High-end estimate	112,963	(2,267)	118,170	2,940	127,359	12,129	358,492

Furthermore, many of the purchase goals, even if fully met, could result in fewer loans being made in these underserved markets than the Enterprises made in 2016. This is also true for total loan purchases (shown as negative numbers in Appendix Table A1). We urge FHFA to ensure that estimated loan purchase goals do not represent a decrease from 2016 levels, as is proposed in some plan objectives. For example, in Fannie's plan Objective A4 under manufactured housing shows Fannie purchased 8,655 loans in 2016. Yet, Fannie proposes to purchase 8,250-8,500 in Year 1 and 8,500-8,750 in Year 2. It is possible for Fannie to purchase fewer loans in both Year 1 and Year 2 than were purchased in 2016 and still receive full Duty to Serve credit for this Objective. This is also the case in Objective C4 under rural housing, where Fannie purchased 17,209 loans in 2016, and proposes loan purchases in Year 1 of 14,350-14,850 and in Year 2 of 14,850-15,350. In this case, Fannie's plan proposes to receive full credit for decreasing rural lending compared to current activity. It is particularly important to ensure there are no decreases in cases where the trend is increasing over time, as in Objective C4 under rural housing.

Based on our analysis of the single-family loan purchase objectives, the Enterprises will not materially increase their loan purchase activity by meeting the objectives in the plans. However, the explicit purpose of the Duty to Serve rule is "to *increase* the liquidity of mortgage investments and *improve* the distribution of investment capital available for mortgage financing

[8] This sums the high-end of ranges given in the plans for each year as well as summing the baseline. For Freddie's targets (given as percentage increase in market share) we assumed purchases equal to those in 2016 to estimate the purchases in each year.

for very low-, low-, and moderate-income families in [the underserved] markets" (emphasis added).[9] The Duty to Serve rule should serve to catalyze activity from the Enterprises, particularly in the first three-year plan cycle. Recent market trends indicate that there is room for the Enterprises to responsibly open up credit access. For example, the Urban Institute estimates that 5.2 million more loans would have been made from 2009-2014 if credit access equaled the more reasonable standards in place in 2001.[10] Furthermore, loans originated from 2011 to 2015 have had near zero default rates, much lower rates than similar time periods for other books of loans.[11] Given this context, the Enterprises have the opportunity to safely pursue lending in undeserved markets by committing to higher loan purchase goals in their Underserved Market Plans.

In addition to purchasing loans to strengthen underserved markets, we urge the Enterprises to revisit their pricing policies and consider how the current structure is a barrier to the Enterprises' ability to purchase loans to lower-income borrowers and in underserved markets. Underwriting structures determine if borrowers are credit worthy, but pricing structures have a significant impact on whether a credit worthy borrower can afford a mortgage. Differential pricing creates an additional barrier to mortgage credit by increasing the price, sometimes significantly, for some borrowers relative to others. There is evidence of price acting as a barrier, especially in today's mortgage market. For example, although Fannie Mae's guidelines allow the Enterprise to purchase loans with credit scores down to 620 and loan-to-value (LTV) ratios of up to 97%, very few loans purchased by the Enterprise have these characteristics.[12] One reason is that excessive risk-based pricing by both the Enterprises and private mortgage insurers add significantly to the cost of loans for borrowers with lower scores and less wealth for a down payment. For example, the combination of loan-level price adjustments (LLPAs) and mortgage insurance (MI) premiums adds over 300 basis points to the cost of a mortgage for a borrower with a credit score of 620 and an LTV of 97%.[13] Thus, reducing differential pricing would likely further the Enterprises' loan purchases in underserved markets.

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[9] Housing and Economic Recovery Act of 2008, P. Law 110-289, Section 1229(a)(1).

[10] Bing, Bai, Goodman, Laurie and Zhu, Jun. Tight credit standards prevented 5.2 million mortgages between 2009 and 2014. Urban Institute. January, 28, 2016, available at http://www.urban.org/urban-wire/tight-credit-standards-prevented-52-million-mortgages-between-2009-and-2014

[11] Goodman, Laurie. Squeaky-clean loans lead to near-zero borrower defaults—and that is not a good thing. Urban Institute. August 31, 2016, available at http://www.urban.org/urban-wire/squeaky-clean-loans-lead-near-zero-borrower-defaults-and-not-good-thing

[12] See p. 6 of 2017 First Quarter Credit Supplement, Fannie Mae, May 5, 201, available at http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2017/q12017_credit_summary.pdf

[13] 350/4+225=312.5 basis points. Fannie's Mae's LLPA for this combination of credit score and LTV is a one-time fee of 350 basis points (see page 2: https://www.fanniemae.com/content/pricing/llpa-matrix.pdf), we assumed a LLPA multiple of 4 to convert this upfront fee to an ongoing cost comparable to the MI premium. Borrower paid MI from Genworth for this combination of credit score and LTV is a continuing fee of 225 basis points (see: https://mortgageinsurance.genworth.com/pdfs/Rates/11370775.Monthly_Natl.FIXED.0616.pdf).

Manufactured Housing

First, we want to emphasize the importance of strong consumer protections in the manufactured housing market, as the current market is rife with predatory practices. The Enterprises can play a crucial role in reforming these practices by requiring strong protections in the manufactured housing loans they purchase. The Enterprises must not receive Duty to Serve credit for the purchase or any high cost or predatory loan.

We concur with and cite to Prosperity Now's recommendations on manufactured housing. We urge FHFA to approve chattel pilots for both Enterprises and we believe that FHFA has the authority to authorize the chattel pilot without requiring a proposal to gain approval as a new product. We believe the steps detailed in Fannie Mae's Plan are reasonable, and $25 million in loan purchases in each of plan years 2 and 3 would help establish a foothold for the chattel secondary market. Furthermore, Freddie's proposal to consider buying existing portfolios is meaningful, but should be done as early as possible to inform its research.

In addition, the lack of loan data impedes the development of Enterprise chattel offerings. We encourage the Enterprises and FHFA to continue to work with industry participants, including CDFIs, to gain access to loan performance data.

Further, in order for both Enterprises to improve loan volume, we encourage the Enterprises to improve existing products to equalize the treatment of manufactured housing with site-built housing. For example, manufactured housing borrowers are treated differently with regard to down payment assistance, LTV ratios, and single-section homes.

Rural Housing

The Enterprises provide an important source of mortgage capital in rural communities, where they purchased nearly one out of every three new mortgages in 2015.[14] In 2015, lenders made over one million purchase and refinance loans in rural areas.[15] The Enterprises also purchased 76,661 purchase and refinance loans to LMI borrowers in rural areas and 20,504 loans to rural borrowers of color, a 26.2 percent and 21.9 percent market share, respectively. In comparison, Ginnie Mae guaranteed 196,963 FHA loans in rural areas, including 52,876 loans (18.1 percent) to LMI borrowers and 24,234 loans (25.9 percent) to rural borrowers of color.

We concur with and cite to Housing Assistance Council (HAC) recommendations. First, we support the Enterprises' proposal to partner with existing housing providers, nonprofits, tribes, and CDFIs who already work in these communities. As HAC notes, community-based and mission-aligned organizations are all too often the only local organizations providing affordable

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[14] Testimony of Mr. Michael D. Calhoun Before the United States Senate Committee on Banking, Housing, and Urban Affairs, Principles of Housing Finance Reform, June 29, 2017, available at http://www.responsiblelending.org/research-publication/mike-calhouns-testimony-principles-housing-finance-reform

[15] Census tracts, which were classified as either urban or rural areas based on the 2017 definition of *rural area* at 12 CFR 1282.1, and *available at* https://www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Data.aspx

housing for low-income people in rural areas. Rural housing developers often face difficult problems that may not be as prevalent in urban areas: lack of financial institutions, limited access to markets, and insufficient infrastructure can hinder the development of affordable housing in rural areas. Working within these limitations, community-based organizations are the essential connections that transform public and private funding into affordable homes.

Additionally, we agree with HAC that the Enterprises could purchase more loans in high needs rural areas. We also agree with HAC's recommendation that the Enterprises and FHFA present not only aggregate purchase annual results for high needs rural areas, but also more granular census tract or geographic presentations, so that the public can gauge and better assess the location and concentration of purchase activity in their regions and communities.

Shared Equity

We concur with and cite to Grounded Solutions Network's recommendations on shared equity loan purchases specifically.

Fannie Mae's Plan**:** Under Objective 4, Fannie Mae states that it has not tracked shared equity loans, and therefore, cannot establish a baseline for loan purchases. However, under Objective 2, the plan states that it will perform an analysis of Fannie Mae's portfolio of shared equity loans in Year 1, 2, and 3. We would like Fannie to clarify how this will be possible, particularly in Year 1. If it is possible, we request that Fannie Mae establish a baseline for loan purchases. Furthermore, we urge Fannie Mae to at least double their goal for loan purchases for every year within their final plan. Grounded Solutions through empirical research has documented roughly 100,000 homes, which is nowhere near the entire shared equity homeownership field. Grounded Solutions is aware of hundreds of additional programs for which we do not have unit counts. Yet, Fannie Mae is proposing to purchase a mere 1% of those documented units.

Freddie Mac's Plan: Under Objective C, Freddie Mac plans to develop comprehensive underwriting guidelines to facilitate originations of loans in Year 1 and 2. However, we agree with Grounded Solutions that this should be catalyzed and loan purchase goals should be incorporated. Although we appreciate the commitment to "develop comprehensive underwriting guidelines" and to account for the "right balance between standardization and flexibility" as Freddie Mac develops "uniform legal instruments," we ask that Freddie Mac make an explicit commitment to serve each type of shared equity homeownership model included under the Duty to Serve definition (*i.e*. community land trusts, deed-restricted housing with and without restrictions surviving foreclosure, and shared appreciation loans). Notably, we would also like Freddie Mac to support financing needs in limited equity housing cooperatives.

We further agree with Grounded Solutions that Freddie should not run a pilot to test potential variations; rather, we support rolling them out and evaluating loan performance over time. All research consistently indicates that shared equity homebuyers have incredibly well-performing first mortgages, and the volume would be insignificant based upon the relative size of the field. In addition, it is vital that the ability to purchase shared appreciation loans is in place before the Shared Appreciation Loan Fund launches. Therefore, we request that all "Actions" listed in the table in the plan under "Specific Action" are pursued in Year 1. Lastly, the result of loan product changes should be that Freddie Mac is now actively participating in the shared equity homeownership market, which means that Year 3 at the very least should have a loan purchase objective. We would recommend no less than 500 loans in the first year. However, we do not recommend that this be done through a pilot that would only allow certain shared equity programs or certain models of shared equity access to the secondary market.

Neighborhood Stabilization

We concur with and cite to the National Community Stabilization Trust's comments. We agree that the Enterprises must include robust, substantive goals with respect to the Neighborhood Stabilization Regulatory Activity outlined in their plans.

Both Fannie and Freddie still hold large inventories of foreclosed properties. Their actions have a grave impact on neighborhood stabilization efforts. First and foremost, the Enterprises must ensure that they are maintaining and managing their Real Estate Owned (REO) properties sufficiently and that their properties are not contributing to neighborhood blight. This includes adopting recommendations issued by the National Fair Housing Alliance in its reports on REO management,[16] including:

- Implementing tight quality control measures on property preservation managers, property asset managers and all vendors who engage in the management, maintenance and marketing of foreclosed units;
- Selecting real estate brokers who live in close proximity to the subject property;
- Establishing relationships with non-profits organizations engaged in quality community development and neighborhood stabilization work at the local level;
- Providing extensive training to all staff and vendors engaged in the management, maintenance and marketing of foreclosed properties;
- Utilizing property management, preservation and sales vendors who are locally based businesses rather than national platform vendors who are often far removed from the assets;
- Adopting strong fair housing policies and ensuring full compliance with fair housing laws and regulations; and
- Implementing marketing and disposition practices that better serve communities.

The Enterprises must also develop products that will enable the renovation of blighted properties, particularly in areas that were hardest hit by the foreclosure crisis. While we appreciate the leadership role that Freddie Mac has played in advancing policies and practices

[16] Zip Code Inequality: Discrimination by Banks in the Maintenance of Homes in Neighborhoods of Color. National Fair Housing Alliance. August 27, 2014, available at http://nationalfairhousing.org/wp-content/uploads/2017/04/2014-08-27_NFHA_REO_report.pdf

that ensure high standards in the maintenance and marketing of REO units, we do still believe that it should have goals under the Neighborhood Stabilization Regulatory Activity in its plan. Additionally, Fannie Mae must substantially beef up its activities in this area. The goals in Fannie's plan are weak and the Enterprise can and must do substantially more to promote neighborhood stabilization efforts, especially given Fannie's impact on the market.

NFHA's investigations and research in this area clearly demonstrate that poorly maintained REO units have a much higher proclivity to sell to investors while well-maintained units are more likely to sell to owner-occupants. Investors have proven to be poor partners when it comes to neighborhood stabilization and community development efforts. The Enterprises must adopt policies and protocols that favor the sale of their units to occupants who will be viable, stable participants in our neighborhoods.

Furthermore, we agree with NCST's recommendations regarding the HomeStyle Renovation loan product. Fannie Mae's proposed activity to increase the purchase of HomeStyle Renovation (HSR) loans contains little concrete data as to the current scale of HSR products in the market. Fannie merely provides the number of HSR loans originated for the purpose of purchasing Fannie Mae REO property in 2016, an underwhelming total of 119 nationwide. No other data is provided, no other prior years are examined, yet this metric is used to set Fannie's baseline for the HSR purchase activity for which it expects to receive Duty to Serve credit. While this lack of transparency as to the total number of HSR products in the marketplace – guarded by Fannie Mae as a proprietary trade secret – is in and of itself problematic, worse are the meager annual objectives above this baseline: 150-200 HSR purchases in 2018, 200-250 in 2019, and 250-300 in 2020. Neither the letter nor the spirit of Duty to Serve are met by Fannie Mae purchasing 31 more HSR loans nationwide in 2018 than it did in 2016. FHFA should require more of the Enterprises.

By underinflating baselines and setting low bars, the Enterprises very well could achieve high marks on their Duty to Serve scorecards without achieving any meaningful impact on the underserved markets. Consequently, we cannot confidently support Fannie Mae's plan to double down on the HSR product, as the small numbers would not likely have a discernible impact on the actual need for acquisition-rehabilitation financing.

As part of their efforts, both Enterprises should prioritize helping to increase access to capital for nonprofits that acquire and rehabilitate distressed properties. To this end, we recommend the Enterprises undertake the following initiatives:

- Develop a renovation product specifically geared to community development nonprofits and other stabilization-oriented developers;
- Invest in CDFIs that finance nonprofit acquisition and rehab of distressed properties;
- Pilot new approaches to encourage lenders to make small-balance mortgages;

- Finance affordable, tenant-friendly, single-family rental in both rural areas and distressed neighborhoods in urban or suburban locations.

Residential Economic Diversity

We strongly support the goal of expanding residential economic diversity (RED), for which the Enterprises may get extra credit for otherwise eligible activities under the Duty to Serve regulation. Economic diversity promotes stronger communities and stronger regional economies, and so can strengthen the markets in which all other Enterprise activities take place.[17]

Further, research demonstrates that children who grow up in low poverty neighborhoods are more likely to attend college, have higher incomes and offer better opportunities to their own children, outcomes that benefit society as a whole.[18] The Enterprises can play an important role in achieving these outcomes through their investments that promote residential economic diversity, both mixed income housing in areas that have historically been starved for investment, and affordable housing in areas that are characterized as "high opportunity."

We support Fannie Mae's inclusion of an objective focused on residential economic diversity. However, we are disappointed at the extremely modest goals that Fannie has set. It has not analyzed past loan purchases to determine which would address this important goal, nor has it proposed a baseline for future activities which promote residential economic diversity. We encourage FHFA to direct Fannie to create such a baseline. Further, the activities that Fannie proposes to undertake in this area are so limited as to have minimal impact: seven meetings with lenders and another seven meetings with Public Housing Authorities in Year 1, tracking transactions to determine which might qualify for treatment as RED transactions, and reviewing a handful of guidelines or incentives to increase the volume of RED transactions. In Year 2, Fannie proposes to purchase a total of nine loans under various programs that would qualify as RED transactions, and in Year 3, it proposes to purchase 13 loans and make one investment that would qualify for RED treatment. We also urge Fannie to be more specific and ambitious in its objective around residential economic diversity.

Freddie Mac has taken an even less ambitious approach. It has not established an objective on Residential Economic Diversity, merely noted that some of its other activities (debt financing for LIHTC projects, closing capital gaps for LIHTC projects, and closing capital gaps for Section 8

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[17] See Ziona Austrian, Afia Yamoah, and Iryna Lendel. An Update of the Regional Growth Model for Large and Mid-Size U.S. Metropolitan Areas: Northeast Ohio Dashboard Indicators. 2007, available at urban.csuohio.edu/publications/center/center_for_economic_development/dashboard_report_final_0807.pdf; Austrian, Yamoah, Lendel. Regional Dashboard of Economic Indicators 2008: Comparative Performance of Midwest and Northeast Ohio Metropolitan Areas. 2008, available at engagedscholarship.csuohio.edu/cgi/viewcontent.cgi?article=1130&context=urban_facpub

[18] See Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz. The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment. 2015, available at http://www.equality-of-opportunity.org/images/mto_paper.pdf

transactions) may qualify for RED treatment. Like Fannie, it has not analyzed past transactions or set any baseline for its activities in this area. It has not proposed any specific activities to identify opportunities for investment, assess barriers that may hinder such investments, or take steps to reduce barriers. Nor has it set specific numbers of transactions to be undertaken to promote residential economic diversity in any of the three years covered by this plan. These are all serious shortcomings. We urge FHFA to direct Freddie to analyze its past transactions to set a baseline and then spell out a specific, ambitious set of activities that it will take to increase residential economic diversity in its Underserved Market Plan.

Furthermore, we believe that focusing on economic diversity alone is not sufficient. Despite recent progress, our communities remain highly segregated by race and ethnicity and this segregation undermines the economic viability and social fabric of our country. It is important – and FHFA has a statutory mandate – to tackle this type of segregation, as well.[19] Efforts that promote greater economic diversity will not necessarily address this problem, because the persistence of housing discrimination means that people of color and others protected under our fair housing laws may not benefit from these efforts. The nation's homeownership rate is at a historic low and the rates for Latinos and African-American households are even lower. We urge FHFA to assess the Enterprises' activities that promote residential economic diversity to ensure that they also promote residential racial and ethnic diversity, and to provide credit only for those activities that promote both income and racial diversity.

Thank you for consideration of our comments. We would be happy to discuss our comments further.

Sincerely,

Center for Responsible Lending
The Leadership Conference on Civil and Human Rights
NAACP
National Coalition for Asian Pacific American Community Development
National Fair Housing Alliance
National Urban League

[19] See 42 U.S.C. 3608(d) (Fair Housing Act makes it clear that all federal agencies that have programs or activities that relate to housing and community development have an affirmative obligation to promote fair housing); 15 U.S.C. Sec. 1691 *et seq* (prohibits discrimination in any credit transaction based on, among other things, race, color, religion, national origin, sex or marital status, age (provided the applicant has the capacity to contract)); Sec. 301(n)(2)(G) of the Fannie Mae charter and Sec. 307(f)(2)(G) of the Freddie Mac charter (according to their charters, the Enterprises are also required to "assess underwriting standards, business practices, repurchase requirements, pricing, fees, and procedures, that affect the purchase of mortgages for low- and moderate-income families, or that may yield disparate results based on the race of the borrower, including revisions thereto to promote affordable housing or fair lending").

Description of Organizations

The Center for Responsible Lending (CRL) is a nonprofit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. Since 1980, Self-Help has provided over $7 billion in financing to 131,000 families, individuals and businesses under-served by traditional financial institutions. It helps drive economic development and strengthen communities by financing hundreds of homebuyers each year, as well as nonprofits, child care centers, community health facilities, public charter schools and residential and commercial real estate projects. Through its credit union network, Self-Help's two credit unions serve over 130,000 people in North Carolina, California, Chicago, Florida and Wisconsin and offers a full range of financial products and services.

The Leadership Conference on Civil and Human Rights is a coalition charged by its diverse membership of more than 200 national organizations to promote and protect the civil and human rights of all persons in the United States. Through advocacy and outreach to targeted constituencies, The Leadership Conference works toward the goal of a more open and just society – an America as good as its ideals. The Leadership Conference was founded in 1950 and has coordinated national lobbying efforts on behalf of every major civil rights law since 1957.

The NAACP is our nation's oldest, largest and most widely-recognized grassroots-based civil rights organization. Founded in 1909, the NAACP's more than half-million members and supporters throughout the U.S. and the world are the premier advocates for civil rights in their communities, campaigning for equal opportunity and basic civil rights. The NAACP's mission is to ensure the political, educational, social, and economic equality of all persons and to eliminate racial hatred and racial discrimination.

National CAPACD is a coalition of more than 100 community-based organizations, including housing counseling agencies, community development corporations, preservation agencies, community-based social service providers, and advocacy agencies. Our members are in 21 states and the Pacific Islands, implementing innovative affordable housing, community development and community organizing strategies to improve the quality of life of low-income Asian American Pacific Islander (AAPI) communities.

The National Urban League is the nation's largest historic civil rights and urban advocacy organization focused on economic empowerment. We have 88 affiliates in 36 states and the District of Columbia that provide direct services to 2 million people annually. The National Urban League is one of the premier HUD-approved housing counseling agencies in the nation, servicing over 300,000 clients, since 2008. We strongly supported the Duty to Serve rule and the passage of HERA 2008. The National Urban League looks forward to a strong implementation of the Duty to Serve rule, which we believe will serve a significant role to increase access to responsible homeownership throughout the nation, especially in communities of color where it is needed the most.

Appendix 1: Loan Purchase Objectives

Table A1: Fannie Mae and Freddie Mac Duty to Serve Objectives with Measurable Loan Purchase Goals to Support Single-Family Homeownership

Objective	Year 1 Purchases	Year 2 Purchases	Year 3 Purchases	Baseline
MANUFACTURED HOUSING MARKET				
Fannie A3: Develop MH Select to increase purchases of loans of manufactured housing titled as real estate	----	250-750	250-750	None
Fannie A4: Increase the purchase volume of conventional manufactured housing loans secured by real estate	8,250-8,500	8,500-8,750	10,000-10,500	8,070 2014: 7,806 2015: 7,749 2016: 8,655
Fannie B3: Establish a chattel loan pilot and purchase chattel loans	----	350-425	350-425	None
Fannie C2: Product enhancements to increase purchases of mortgage loans secured by MHC owned by gov't entities and non-profit organizations	----	200-300	200-300	None
Freddie 1A: Increase single-family purchase loan share of manufactured housing titled as real property	Maintain 2016 baseline (0% - 1.99% increase)	2% - 3.99% over 2016 baseline	4% - 5.99% over 2016 baseline	0.32% (4,647) 2013: 0.32% 2014: 0.41% 2015: 0.35% 2016: 0.32%
Freddie 2B: Develop guidelines & initiate chattel loan pilot	----	----	----	None
AFFORDABLE HOUSING PRESERVATION MARKET				
Fannie H6: Purchase HomeStyle Energy mortgage loans that meet FHFA Criteria	----	50-100	100-200	None
Fannie I4: Purchase shared equity mortgage loans	200-250	250-300	400-500	None

Fannie K3: Increase purchase of HomeStyle Renovation loans originated for purchasing or rehabbing distressed property by individuals, non-profits, and other mission-oriented entities	150-200	200-250	250-300	None 2016: 119
RURAL HOUSING MARKET				
Fannie A2: Increase purchasing of single-family mortgages in high-needs rural regions	10,250- 10,500	10,500- 11,000	12,500- 13,000	10,015 2014: 10,039 2015: 9630 2016: 10,377
Fannie B2: Reinvigorate Native American Conventional Lending Initiative (NACLI) single-family loan program	----	75-125	200-275	31 2014: 38 2015: 45 2016: 9
Fannie C3: Purchase single-family rural loans through bulk transactions from small financial intuitions	----	600-675	600-675	None
Fannie C4: Increase purchase volume of single-family loans in rural areas from small financial institutions	14,350- 14,850	14,850- 15,350	17,500- 18,000	13,998 2014: 10,384 2015: 14,401 2016: 17,209
Freddie 1A: Increase single-family purchase loan share in high-needs rural regions	Maintain 2016 baseline (0% - .99% increase)	2.0% - 2.99% over 2016 baseline	3.0% - 5.99% over 2016 baseline	4.97% (73,199) 2013: 5.52% 2014: 5.65% 2015: 5.23% 2016: 4.97%
Freddie 4B: Explore small balance loan (SBL) pilot offering for rural areas	----	----	----	None