Underserved Mortgage Markets Coalition's Blueprint for Impactful Duty to Serve Plans

February 7, 2024

This document provides recommendations for Fannie Mae and Freddie Mac (the GSEs) to include in their 2025–2027 Duty to Serve plans. The recommendations are separated into four Duty to Serve markets: manufactured housing, rural housing, and single and multifamily affordable housing preservation. The Underserved Mortgage Markets Coalition will track the plans' progress and publish a scorecard evaluating the GSEs' success in implementing their plans.

A. Manufactured Housing

1. Increase Manufactured Housing Infill:

Increase outreach and loan purchases of manufactured home loans by 3% over baseline each year of the plan. We ask both Fannie Mae and Freddie Mac (GSEs) to add these objectives to their goals; doing so will help identify and address high-cost housing markets and underserved communities.

a. Year 1: Conduct outreach and identify five markets receptive to new manufactured home developments or infill, where local officials approve increasing the affordable housing stock with energy-efficient manufactured homes.

b. Year 2: Research infill barriers and develop and execute an infill loan purchase program for homebuyers purchasing single-section homes that meet MH Advantage and CHOICEHome guidelines, to spur infill and expand affordability.

c. Year 3: Conduct outreach and identify five target infill markets for single-section homes.

2. Home-Only Loan Pilot

We recommend that both GSEs launch a *Home-Only* loan pilot, consider adding any additional consumer protections, include a standardized land lease, and homebuyer education and counseling.

a. Year 1: Fannie Mae conducts outreach, research, and planning conducive to launching a Home-Only pilot by Year 2. Freddie Mac identifies a community or market in which to launch a pilot.

b. Year 2: Fannie Mae and Freddie Mac should create a pilot to incentivize originators to purchase 50 small-balance and home-only loans.

c. Year 3: Fannie Mae and Freddie Mac should expand the home-only pilot to five additional communities/markets.

B. Rural Housing

1. Address the Section 515 Preservation Crisis:

The GSEs should purchase mortgage products that increase liquidity in the Section 515 market.

a. Year 1: Fannie Mae should continue to operationalize, pilot, and market a new loan purchase product that supports 515 preservation transactions. Freddie Mac should launch a similar product, and both should receive full FHFA approval.
b. Year 2: Provide $5 million in equity investments for CDFIs engaged in Section 515 preservation financing. These investments could be structured like the USDA Preservation Revolving Loan Fund (administered at the USDA in the early 2000s), although preferably with longer terms.
c. Years 2 and 3: Scale GSE's loan purchase volume. Specifically, each GSE should purchase at least nine loans for 515 preservation transactions in 2025, 2026, and 2027.

2. Develop Better Loan Products to Serve High-Needs Rural Regions (HNRR):

We recommend that both GSEs add an activity creating a CDFI-preferred product or current product flexibility to meet LMI borrower needs. These products should allow:

a. Exceptions from income limits in HNRRs and persistent poverty areas.
b. Credit exceptions for low and/or nonconforming credit.
c. A 4–5% deferred or repayable loan to cover closing costs after the first lien is paid.
d. The seller concession amount to increase from 3% to 6%.
e. The limit on CLTV to be eliminated, given that FHA does not have a limit.
f. Down payment assistance.

3. Serving Native American Markets

Increase conventional lending on trust land and secondary market sales of trust land mortgages.

a. The GSEs should work with other federal agencies (VA, USDA, HUD, and the White House), Native-led asset-building coalitions, tribal governments, tribally owned financial institutions, and other partners to streamline their engagement with tribal communities, remove barriers, identify and encourage opportunities to improve processes, and expand access to lending products.
b. The GSEs should set clear purchase targets and a timeline for trust land mortgages that includes major interim milestones.
c. In consultation with Native-led nonprofits, including leading national Native banks and other Native banking access programs, the GSEs should increase engagement with lenders near tribal land and work to build relationships between tribal nations

and banks. The GSEs should also increase banks' understanding of tribal law and their willingness to lend on tribal land, with specific outreach to local and regional lenders, Native CDFIs, Native-owned banks, and other relevant lenders such as national mortgage companies and Native-led nonprofits that offer revolving loan funds for mortgages.

d. The GSEs should establish on-staff Native lending and outreach teams to ensure that milestones are achieved.
e. Freddie Mac should work with tribal housing staff, Native-led nonprofits, and other tribal government programs providing down payment assistance grants, and lenders to conduct a report at the end of Plan Year 1 to quantify the success of the Heritage One product and modify it as recommended in Plan Years 2 and 3.

<u>C. Single-Family Affordable Housing Preservation</u>

1. Shared Equity Homeownership

The GSEs should prioritize shared equity homeownership by continuing to increase their loan purchase targets and expanding understanding of the field.

a. Year 1: Align loan purchase requirements in both GSEs' selling guides. Update versions of both model documents so that additional riders are unnecessary and align them with updated selling guides. Release model documents to the public no later than September 2025.
b. Year 2: Conduct or sponsor research to improve understanding of the shared equity field. Specifically, support research on the performance of loans to shared equity borrowers to determine the actual risk profile of shared equity lending. Also, continue to support "state of shared equity" work such as the recently concluded national CLT/Shared Equity census. The performance study should take no longer than 18 months while the "state of shared equity" work would ideally cover annual funding for ongoing data collection, dissemination, and administration.
c. Years 1–3: Increase loan purchase targets for shared equity homeownership. As of the release of this blueprint, the current shared equity loan purchases for Fannie Mae is 180 and the total for Freddie Mac is 135. We ask both GSEs to increase their annual loan purchase targets to 200 for the period covered by the 2025–2027 Underserved Market Plan, for 600 total loan purchases.

2. Distressed Asset Disposition

The GSEs should prioritize the sales of nonperforming and reperforming loans, including real estate owned, to mission-driven nonprofits and/or government entities to ensure that properties remain in the hands of owner occupants and on the homeownership market.

a. Year 1: Evaluate opportunities to partner with organizations that support financing for the purchase or rehabilitation of distressed properties and build on the existing loan product that meets the GSEs criteria for loan purchases. Both GSEs previously purchased mortgages in bulk and have relationships with organizations that could use investment dollars to more readily buy and rehabilitate distressed properties for the target market.
    - Fannie Mae should begin working with National Community Stabilization Trust (NCST) as the designated third-party vendor to ensure that distressed assets are being directed toward mission-driven nonprofits and/or government entities.
    - Freddie Mac should continue to rely on NCST to ensure that its distressed assets are being directed to mission-based nonprofits and/or government entities to account for adequate back-end reporting data and analysis.
    - The GSEs will provide the first annual report detailing data on disposition channels used, total volume by channel, asset locations, level of rehabilitation,

and whether the sale preserves the asset as an affordable homeownership opportunity. This information should be made available to the public.

b. Year 2: In conjunction with NCST as the designated third-party vendor, Fannie Mae should sell at least 10% of distressed asset inventory to mission-based nonprofits and government entities by the end of December 2026.
c. Year 3: Continue to work with NCST to increase distressed asset sales by an additional 5% (15% total from baseline) to mission-based nonprofits and/or government entities by the end of December 2027.

3. Energy Efficiency

Increase product and outreach goals in high energy burdened markets and report on achievements to date.

a. Collaborate with the financial intermediaries selected to implement the Greenhouse Gas Reduction Fund and the state energy offices deploying rebate programs to facilitate purchase of DTS-eligible energy savings products in all markets. This will allow the GSEs to purchase loans that unlock additional financing opportunities for households to complete efficiency and electrification projects after relevant IRA incentives are applied. We expect that this will increase demand for green bonds and increase secondary market liquidity, encouraging more lenders to finance properties that promote affordability for low- and moderate-income households.
b. Year 1: Both GSEs should identify an additional 5–10 markets and focus efforts on at least five of these, an increase from two for Fannie Mae and 0 for Freddie Mac.
c. Years 1–3: Increase loan purchase targets for energy efficiency improvements to 500 by December 31, 2025, and yearly by 100. This will be an increase from Freddie Mac's current plans of 200–500 loans and Fannie Mae's target of 28–33 loans.

4. Develop Better Loan Products to Serve Single Family Markets:

We recommend that both GSEs add an activity creating a CDFI-preferred product or current product flexibility to meet LMI borrower needs. These products should allow:

g. Exceptions from income limits in HNRRs and persistent poverty areas.
h. Credit exceptions for low and/or nonconforming credit.
i. A 4–5% deferred or repayable loan to cover closing costs after the first lien is paid.
j. The seller concession amount to increase from 3% to 6%.
k. The limit on CLTV to be eliminated, given that FHA does not have a limit.
l. Down payment assistance.

D. Multifamily Affordable Housing Preservation

1. DTS Credit for Nonrural LIHTC Investments

The FHFA provides DTS credit for LIHTC equity investments in rural markets, but there is a critical need to rehabilitate and recapitalize existing affordable multifamily properties in nonrural settings.

a. In tandem with their DTS plans, the GSEs should explicitly seek permission from FHFA to receive credit for equity investments that preserve the affordability of nonrural LIHTC properties. To appropriately evaluate the scale of the target activity, the GSEs should annually disclose their investment activities, broken out by rural investment, nonrural preservation investment, and others.
b. The new plans should also set specific investment targets for each of the three plan years, set at no less than 20 percent of the LIHTC equity investment planned for annually.
c. Year 1: Preservation-focused equity investments should be eligible for DTS credit, and data on existing nonrural preservation investment should be published, aggregated by the year of investment.
d. Year 1–3: Both GSEs should set specific activity targets (units and capital deployed) for LIHTC equity investments in preservation.

2. Expand Commitment to—and Flexibility for—Modification on DTS Activities

The Duty to Serve program allows the GSEs to seek formal modifications to their plans when external conditions prevent them from hitting the activity-level targets laid out in the three-year plans. While the individual activity targets are based on market assumptions, unexpected market shifts or changes to the regulatory environment can make some targets unachievable. Recognizing that Congress's intent was to ensure that underserved mortgage markets would be better served by the GSEs, we would prefer that changing circumstances do not lead to decreased support for the underserved markets.

a. We call upon the GSEs to commit to an overall target level of support (measured in capital deployed, which is administratively simpler and avoids concerns about double counting) for multifamily preservation at a level equal to 10 percent above the sum of the individual statutory and regulatory activities selected in each DTS plan. Through this voluntary commitment, which goes beyond the specific requirements currently in the DTS rule, the GSEs can demonstrate their support for specific affordable housing program needs (consistent with existing DTS obligations) as well as their commitment to affordable housing more broadly.
b. To make it easier to respond to needs as conditions shift, we support offering GSEs greater flexibility to make modest adjustments to individual targets without triggering a formal modification request, if the overall target level of preservation activity (i.e., 110 percent) is unchanged. (If a GSE typically establishes activity targets

by unit counts or loans made, average unit cost or loan size can inform the overall target.)

c. Year 1: Set overall annual targets for multifamily preservation at no less than 110 percent of the sum of the individual activities in each DTS plan year and include the commitment in the new plans being submitted.
    - Formally request greater flexibility for modest activity-level modifications that would not alter the overall capital committed to multifamily preservation each year.
d. Year 1–3: Establish individual activity targets as per the current plan process and formally commit to overall capital commitment equal to no less than 110 percent of the sum of the activity targets in each plan year.

3. Prevent the Loss of Housing Credit Properties Through the Exercise of Qualified Contracts

The GSEs should take a multipronged approach to preventing the loss of affordability through the exercise of Qualified Contracts (QCs) on Housing Credit properties.

a. Commit to acquiring multifamily loans on Housing Credit properties only if the owner has agreed to waive their QC rights. This proposal is intended to make it more difficult for developers to obtain long-term debt financing for their properties if they have the ability, through the QC process, to convert the Housing Credit property to market rental after 15 years of rent and income restrictions. Debt financing on the property would qualify for purchase by a GSE only if:
    a. The regulatory agreement between the developer/owner and the HFA includes a waiver of the right to go through the QC process, or
    b. The owner agrees to a subsequent, legally binding obligation to meet the affordability requirements throughout the extended use period.
b. Exclude multifamily loans on properties financed with Housing Credits if an owner has taken the property through the QC process and terminated the rent and income limitations on the property from eligibility for purchase by a GSE. This would apply to the purchase of any multifamily loan that finances a Housing Credit property that has gone through the QC process. To be eligible for GSE purchase, the loan on such properties would be required to include an attestation by the borrower that the property has not gone through the QC process.
c. Year 1: Develop loan (and investment) documents that include QC waivers and material breach language if the borrower attempts to exercise a QC to be included in all multifamily originations. Develop training materials to educate sellers, servicers, and borrowers on the policy change.
d. Year 2: Implement policy for all new loans on a go-forward basis.