

DUTY TO SERVE

Congress imposed the Duty to Serve requirements on Fannie Mae and Freddie Mac in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing and Economic Recovery Act of 2008. The Federal Housing Finance Agency (FHFA) issued a regulation to implement the requirements. The statute requires Fannie Mae and Freddie Mac (the Enterprises) to provide leadership to facilitate a secondary market for mortgages on housing for very low-, low-, and moderate-income families in three underserved markets specified in the statute: manufactured housing; affordable housing preservation; rural housing.

Each Enterprise must submit to FHFA a proposed Underserved Markets Plan (Plan) covering a three-year period, and the public will be invited to provide input on the proposed Plans. The Enterprises must assist each of the three underserved markets through activities, as specified in the Enterprises' Plans. There are nine Statutory Activities (enumerated in the Duty to Serve statute), and FHFA has identified fifteen Regulatory Activities. The Enterprises are required to consider a minimum number of Statutory or Regulatory Activities for each underserved market when creating their Plans. The Enterprises may also propose Additional Activities in their Plans. For each Activity, the Plans must include measurable objectives stating how the Enterprises will accomplish the Activity. Certain impactful activities, including activities that promote residential economic diversity in an underserved market are eligible for Duty to Serve extra credit.

AFFORDABLE HOUSING PRESERVATION

For affordable housing preservation, Statutory Activities that Fannie Mae and Freddie Mac undertake related to preservation of affordable housing funded under the following programs specified in the statute are eligible for Duty to Serve credit:

- U.S. Department of Housing & Urban Development (HUD) Section 8 Rental Assistance Program;
- HUD Section 236 Rental and Cooperative Housing Program;
- HUD Section 221(d)(4);
- HUD Section 202 Housing Program for Elderly Households;
- HUD Section 811 Housing Program for Disabled Households;
- McKinney-Vento Homeless Assistance Programs;
- USDA Section 515 Rural Housing Programs;
- Federal Low-Income Housing Tax Credits; and
- Other comparable state and local affordable housing programs.

Regulatory Activities that Fannie Mae and Freddie Mac undertake related to: purchasing loans on small multifamily rental properties of 5 to 50 units; purchasing energy efficiency improvement loans on multifamily rental properties; purchasing energy efficiency improvement loans on single-family properties with Fannie Mae or Freddie Mac first-mortgage liens; activities that support financing of purchase or rehabilitation of certain distressed properties; activities related to public housing properties that use HUD's Rental Assistance Demonstration Program; and activities related to properties in designated areas under HUD's Choice Neighborhoods Initiatives Program are eligible for Duty to Serve credit.

In addition, Regulatory Activities undertaken by the Enterprises that support preserving affordable homeownership for single-family properties under shared equity programs administered by a community land trust, a nonprofit organization or a state or local government agency are eligible for Duty to Serve credit. Eligible shared equity programs must ensure affordability for 30 years, monitor the units to ensure affordability is preserved over resales, and support the homeowners to promote successful homeownership.

RURAL HOUSING

For the rural housing market, Regulatory Activities undertaken by the Enterprises that support housing in high-needs rural regions, defined as Middle Appalachia, the Lower Mississippi Delta, colonias, and rural tracts in certain persistent poverty counties are eligible for Duty to Serve credit. Enterprise activities supporting housing for high-needs rural populations, defined as members of a Federally recognized Native American tribe located in a Native American area, and agricultural workers are eligible for Duty to Serve credit. In addition, Enterprise activities that support financing by small financial institutions of rural housing, and Enterprise activities that support small multifamily rental property activity in rural areas are eligible for Duty to Serve credit. The final rule defines a “rural area” as (i) a census tract outside of a Metropolitan Statistical Area (MSA) as designated by the Office of Management and Budget, or (ii) a census tract in an MSA, but outside of the MSA’s Urbanized Areas as designated by the U.S. Dept. of Agriculture’s Rural-Urban Commuting Area Code (RUCA) 1 and outside of tracts that have a housing density of over 64 housing units per square mile for USDA’s RUCA Code 2.

Both Enterprises released Plans earlier this year describing specific activities and objectives they propose to undertake from 2018-2020 to fulfill their Duty to Serve obligations in each underserved market. The public input period closed on July 10, 2017. FHFA and the Enterprises continue to iterate on the proposed Plans, with the goal of finalizing the Plans so that they become effective by January 1, 2018.

Questions

The relatively small mortgages on small multifamily properties—typically below \$3 million—make it very difficult for lenders to originate profitably after accounting for personnel, legal and other transaction costs. Due to the slim margins, these loans tend to be originated by smaller local banks with limited access to the secondary market, meaning they typically must hold the loans on their balance sheets. Has Fannie Mae given further consideration to developing products that incent primary lenders to provide long-term, fixed-rate and affordable loans for the preservation of aging small multifamily properties?

We’re at a conference for nonprofit housing organizations. Outreach to not for profit entities should be part of the Underserved Markets Plan measurements in the areas of education, technical outreach and rural partnerships. Supporting organizations that are working locally, regionally and on a national basis, in the areas of credit counseling (pre- and post-purchase), credit repair, loan packaging, lender training, all are needed to reach individuals and households to increase successful home ownership. Does Fannie Mae have any plans to target these areas with the emphasis on education, technical outreach and partnerships, and asset building over a long term? Has Fannie developed any measurements?