

# Duty to Serve: Increasing Affordable Housing Options Through the Secondary Mortgage Market

December 13, 2018

*Organized by the Federal Reserve Bank of St. Louis*

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# Welcome

Thank you for attending today's session. How to join (remember, this session is being recorded)

- Call-in number: 888-625-5230
- Conference code: 6163 6314#
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/28311>

You have two options to ask questions today:

*\*These questions may be part of the recorded archive for this session.*

- Email us at: [communities@stls.frb.org](mailto:communities@stls.frb.org)
- Type your question into the chat box of the webinar

An archived recording of this session will be available on the **Connecting Communities**<sup>®</sup> website shortly after the session ends. Please visit:

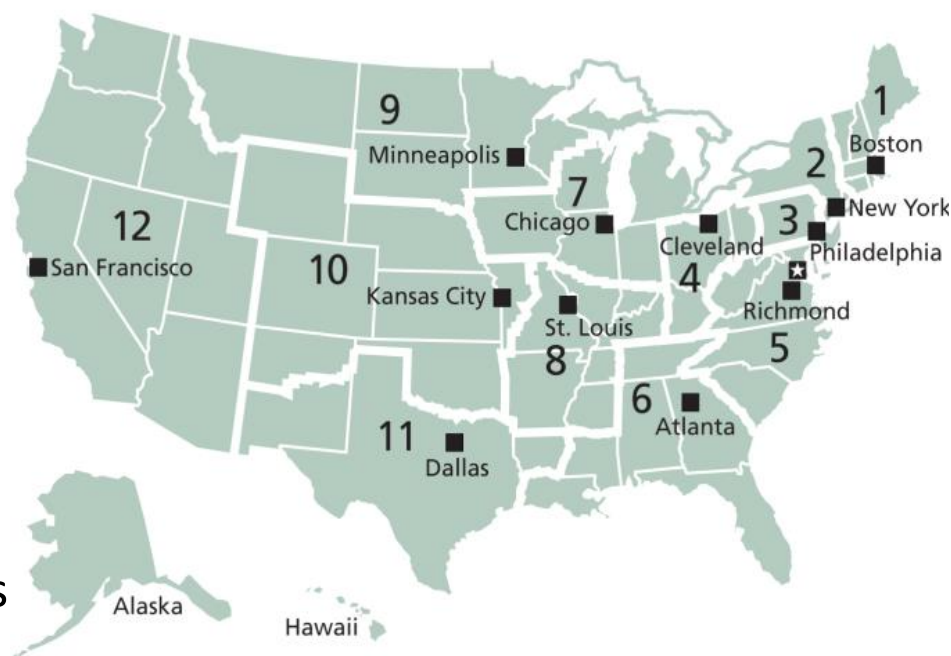
In connection with this session, you can find a variety of additional resources on this topic, available at [www.fedcommunities.org](http://www.fedcommunities.org). We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

# Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

# Community Development

- The Community Development function within the Federal Reserve System—consisting of individual departments at each of the 12 Federal Reserve Banks, as well as at the Board of Governors—promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
  - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
  - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
  - **Identifying emerging issues**



# Today's Presenters and Agenda

- Faith Weekly, Federal Reserve Bank of St. Louis
- Jim Gray, Federal Housing Finance Agency
- Anna Canfield Roth, Fannie Mae
- Dan Ticona, Freddie Mac
- Lance George, Housing Assistance Council

# Overview – Duty to Serve (DTS)

- I. What is DTS?
- II. How could DTS help?
- III. What did DTS achieve in the first 6 months?

# What is DTS?



# Program overview

## KEY MILESTONES OF THE DUTY TO SERVE PROCESS





# Evaluation process

## Step 1

- Quantitative assessment
- Determines pass or fail

## Step 2

- Qualitative assessment
- Evaluates impact and implementation

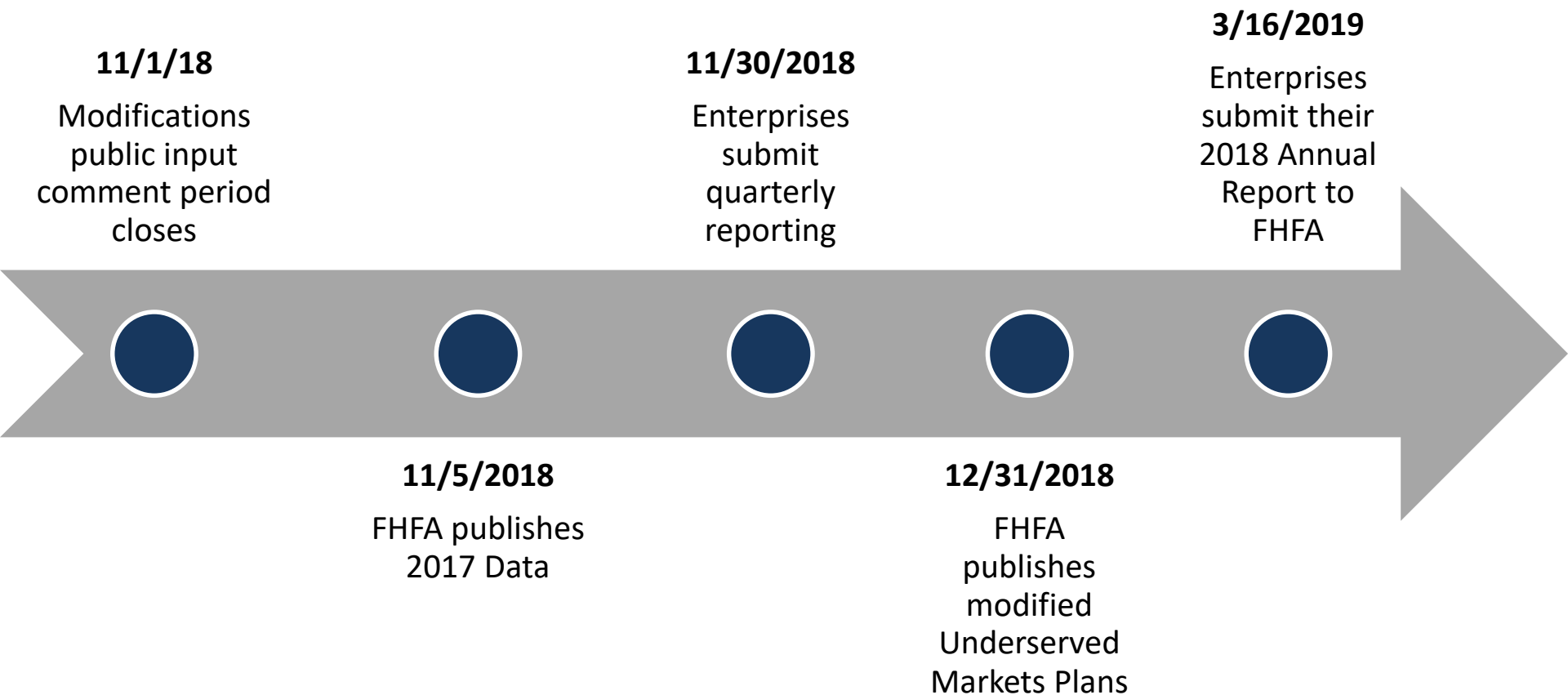
## Step 3

- Extra credit
- Upward adjustment for certain eligible activities

## Rating

- Final rating
- Fails, Minimally Passing, Low Satisfactory, High Satisfactory, or Exceeds

# Dts timeline



# How could dts help?



## How Could DTS Help manufactured housing markets?



1. Open a single family market where units average cost is \$286,000 rather than \$70,600.
2. Refinance & competitive terms for chattel loans.
3. Options for residents of manufactured housing communities.

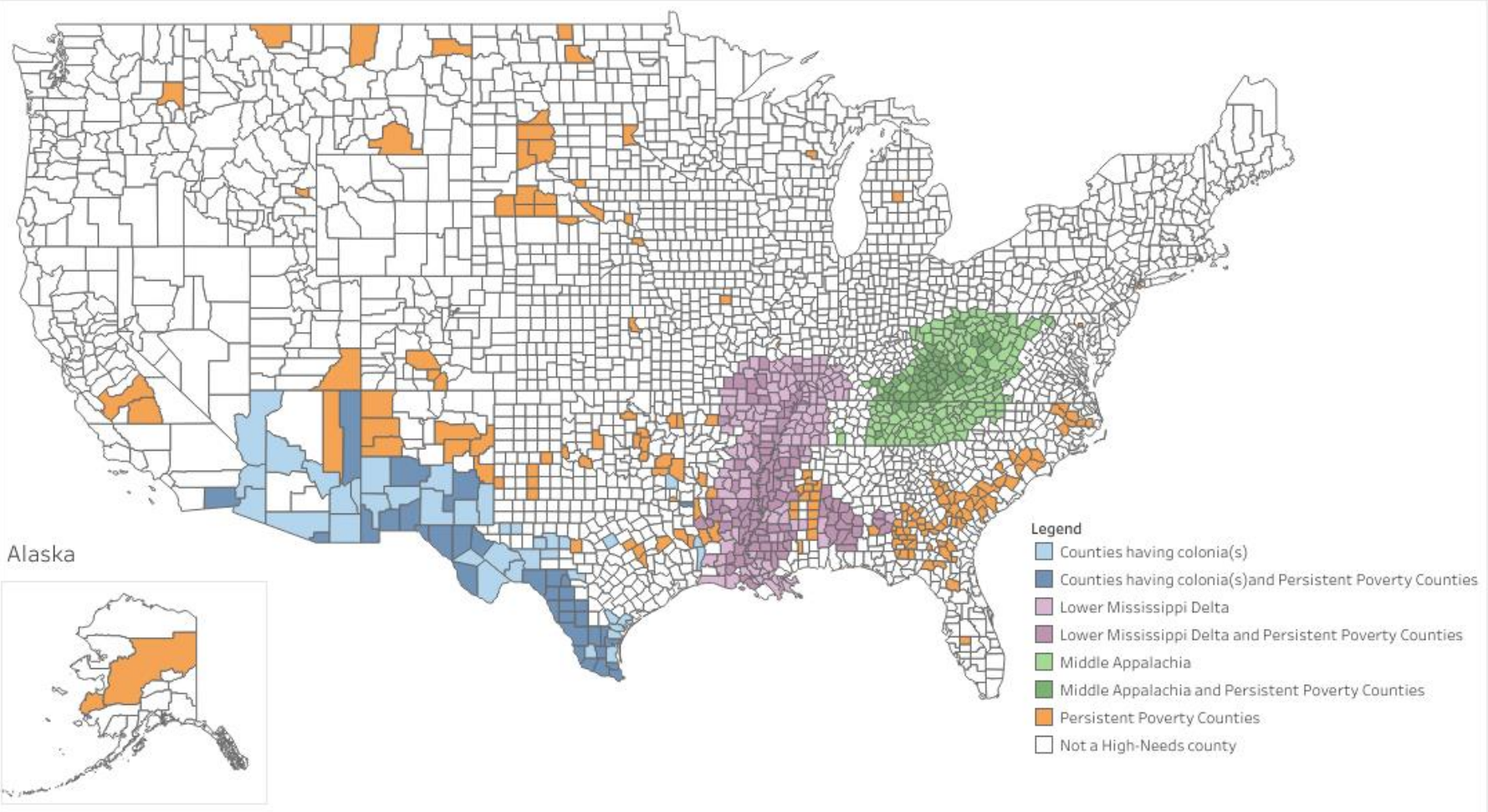
# How Could DTS Help Rural Markets?



1. Mortgage credit access more comparable to urban areas
2. Allow small lenders to move their loans into the secondary mortgage market.
3. Begin bringing mortgage credit access to High Needs Rural Areas.

# High Needs Rural Areas

2018 High-Needs Counties for Duty to Serve Purposes



# How Could DTS Help Preservation Markets?



1. Increase liquidity for preservation & rehab of traditional multifamily rental programs (LIHTC, Sec. 8, Sec. 515)
2. Increase demand for SF & MF loans that enhance energy efficiency.
3. Create loan products to purchase or rehab distressed single family properties.
4. Create a market for “shared equity” loans that preserve affordable homeownership.

**What did DTS achieve in the first 6 months?**





- Thank you!

- [www.fhfa.gov/dts](http://www.fhfa.gov/dts)

- Jim Gray

- Manager, Duty to Serve Program

- Federal Housing Finance Agency

- [Jim.Gray@fhfa.gov](mailto:Jim.Gray@fhfa.gov)

- 202-649-3124

Connecting Communities: Duty to Serve

Increasing Affordable Housing Options Through the Secondary Mortgage Market



# Overview of 2018 Progress by Market



## • **Manufactured Housing**

- Outreach and partnership development to create a loan purchase pilot focused on Resident Owned Communities.
- Outreach to develop product enhancements targeting Non-Traditional MHC ownership structures and an incentive to encourage borrowers to incorporate Tenant Site Lease Protections.
- Established Manufactured Housing Advisory Council.

## • **Affordable Preservation**

- Significant progress towards increasing loan purchases to support Section 8 housing, Low-Income Housing Tax Credit (LIHTC) debt, and properties subject to a Rental Assistance Demonstration (RAD) program.
- Proposed product enhancements, and acquired Green Rewards and Green Building Certification loans.
- Released inclusionary zoning mapping tool, which identifies State and local affordable housing programs.
- Established Public Housing Agency and Energy Advisory Councils.

## • **Rural Housing**

- Invested in multiple LIHTC equity funds.
- Developed work plan for DTS rural regions describing actions we will undertake over the next two years.
- Identified product enhancements to enable us to increase purchase of small multifamily loans in rural areas.
- Established Rural Advisory Council and hosted Rural Roundtable event.

# Manufactured Housing Resident Owned Community Pilot

- Purchase loans secured by Manufactured Housing Communities (MHC) that are resident-owned or owned by non-profit entities.
- Evaluate opportunities for financing MHC meeting FHFA's minimum tenant site lease protections.



- Resident Owned Community (ROC): Owners of each home form a nonprofit entity, which holds title to the land and manages the community
- Partnerships with ROC USA and National Cooperative Bank (NCB) to develop and implement a pilot to acquire Mortgage Loans secured by a ROC property
- Testing models to increase acquisitions of MHC owned by non-profit entities, and for traditional MHC owners willing to adopt Tenant Site Lease Protections
- Hope to finance 5 ROC-secured Mortgage Loans in 2019



## Affordable Housing Preservation Goals

- Explore preservation strategies and make additional loan purchases under a number of existing federal programs
- Increase our support for state and local workforce housing initiatives

## Residential Economic Diversity

- To increase economic mobility and improve outcomes for low-income families, Fannie Mae will focus on increasing transactions that increase Residential Economic Diversity (RED)
- In 2019 our RED Initiative will work to increase eligible RED properties through an emphasis on:



Affordable Housing in High Opportunity Areas

Mixed Income Housing in Areas of Concentrated Poverty

Workforce Equity Investments

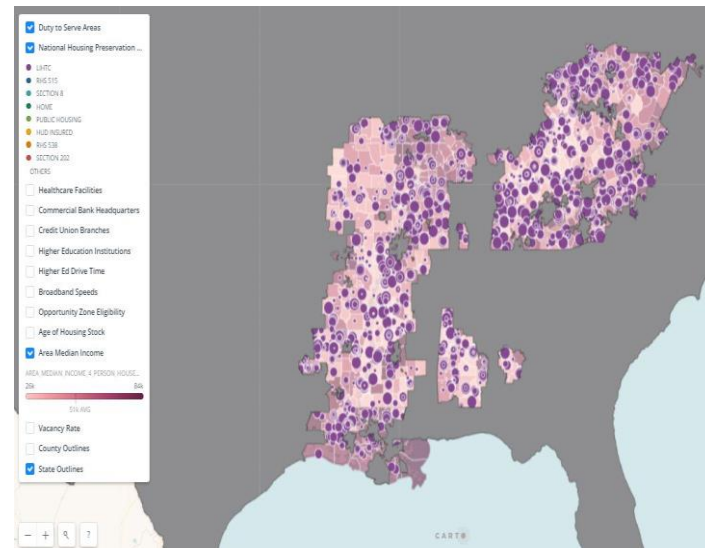
## Rural Market Goals

- Increase purchases of loans secured by multifamily housing for specific high-needs populations and regions
- Re-enter the LIHTC equity market to help provide capital for affordable multifamily housing.



## Data Visualization Initiative

- Partnered with Rural Innovation Strategies (RIS) to develop a mapping tool for underserved rural regions: Lower Mississippi Delta and Middle Appalachia
- Can view area and property-level characteristics such as: Proximity of universities, government programs utilized by the property, AMI, property age, etc.



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## Duty to Serve Overview

Single-Family Affordable Lending and Access to Credit

December 13 2018

## Freddie Mac's Mission

# A *Better* Freddie Mac

...and a *better* housing finance system

### For families

...innovating to improve the liquidity, stability and affordability of mortgage markets

### For customers

...competing to earn their business

### For taxpayers

...reducing their exposure to mortgage risks



# Background

In 2008, Congress called on Freddie Mac to provide leadership by developing loan products and flexible underwriting guidelines to serve those families that have been hardest to reach. We have now been asked to responsibly increase liquidity and improve the distribution of investment capital to serve very low-, low- and moderate-income families within three historically underserved markets— ***manufactured housing, rural housing*** and ***affordable housing preservation***.

Duty to Serve presents an opportunity—one that Freddie Mac welcomes—to lead the entire mortgage industry in developing effective solutions to some of society's most persistent housing problems.

***Our ultimate goal is clear:***

***We look forward to helping more of America's families with their housing needs.***

# Manufactured Housing

Real Property and Personal Property (Chattel)

# Manufactured Housing

## Manufactured Homes Titled as Real Property

Resident finances the unit structure and the land together

- Freddie Mac purchases Manufactured Homes Titled as Real Property today

## Manufactured Homes Titled as Personal Property (Chattel)

Resident finances the unit structure without owning the land

- Freddie Mac does not purchase Manufactured Homes Titled as Personal Property today

# Manufactured Housing

## Real Property

- Promote a greater understanding of the manufactured housing market through research
- Increase purchases of manufactured housing titled as real property
- Provide product flexibilities and innovations to support real property
- Increase borrower access to education and resources

## Personal Property (Chattel)

- Perform an analysis of data to understand Chattel financing available in today's market
- Initiate policy changes for manufactured housing as personal property
- Initiative a Manufactured Homes titled as personal property test and learn to inform policy design
- Explore securitization market for chattel loans

# Affordable Housing Preservation

Energy Efficiency Financing & Shared Equity Programs

# Affordable Housing Preservation – Energy Efficiency

**Freddie Mac supports the energy efficiency market as a way to preserve home affordability. Over the next 3 years, we will:**

- Conduct research on the impact of energy efficiency improvements on property values and loan mortgage performance; publish white paper
- Design new or improved product flexibilities
- Develop valuation guidance and data collection mechanisms to account for energy-efficient features

# Affordable Housing Preservation – Energy Efficiency

## In 2018 we:

- Structured our research project on the impact of energy efficiency improvements on property values and loan mortgage performance; we spent the majority of the year acquiring data and building out a large sample to conduct our research. We are on target to publish results in 2019.
- Introduced the GreenCHOICE Mortgage, our newest financing option for energy and/or water efficiency home improvements.
- Conducted pilots to test new product ideas to finance energy efficient homes.

# Affordable Housing Preservation – Shared Equity Homeownership

Affordable housing preservation is part of our core business. Over the next 3 years, we will:

- Develop product flexibilities and guidelines that facilitate new mortgage originations under resale restricted programs administered by Community Land Trusts or other nonprofits or state or local governments
- Purchase more loans originated under shared equity programs,
- Support standardization of data collection at the transaction level, and
- Promote market awareness of shared equity programs.



# Affordable Housing Preservation – Shared Equity Homeownership

## In 2018, we:

- Introduced the Community Land Trust Mortgage to help financing of properties bought under Community Land Trusts. Community Land Trusts seek to preserve affordability of homes by retaining ownership of land and leasing it under a long-term ground lease to a homebuyer who purchases the improvements on the land at a below market rate.
- Introduced updated requirements for Mortgages secured by properties subject to resale restrictions, including resale restrictions imposed to limit the occupancy and resale of the property to individuals or households of very-low, low- or moderate-incomes

# Rural Housing

Regions, Populations & Small Financial Institutions

# Rural Housing

## Rural Regions

Activities that serve high needs rural regions (areas of persistent poverty)

- Middle Appalachia, Lower Mississippi Delta, Colonias
- A tract located in a persistent poverty county

## Rural Populations

Activities that serve high needs rural populations

- Members of a federally recognized Native American tribe located in an Indian area
- Agricultural workers

## Small Financial Institutions

Financing of rural properties by small financial institutions with asset size of \$304 million or less

# Activities and Objectives – Rural Regions

Freddie Mac's strategic approach to increasing liquidity and expanding the distribution of capital in high-needs rural regions includes objectives targeted to individual regions as well as challenges faced by multiple regions.

During the Plan Term, Freddie Mac intends to engage in the following objectives:

- ✓ Increase single-family purchase volume in high-needs rural regions
- ✓ Design new product flexibilities to facilitate the origination of mortgages in high-needs rural regions
- ✓ Design improved product flexibilities to facilitate financing of renovation costs
- ✓ Increase future homebuyer access to education and resources

# Activities and Objectives – Rural Populations

Freddie Mac's strategic approach to serving high-needs rural populations includes partnering with local nonprofits, housing finance agencies, CDFIs and other small financial institutions to provide homebuyer education, and providing technical expertise to lenders and appraisers serving Indian country.

During the Plan Term, Freddie Mac intends to engage in the following objectives:

- ✓ Increase access to education and resources for Native Americans planning to buy homes in Indian areas.
- ✓ Provide technical expertise to lenders and non-profits serving Native Americans in Indian country.

# Small Financial Institutions

*A small financial institution is defined for Duty to Serve purposes as one with less than \$304 million in assets.*

Freddie Mac is committed to partnering with small financial institutions to leverage their market knowledge, experience and stakeholder network and to maximize the secondary market impact in the rural housing market. Freddie Mac will commit to achieving the following loan purchases in rural regions for very low-, low-, and moderate-income borrowers in the following years:

<b>Purchase Targets – Small Financial Institutions</b>		
<b>Year 1 – 2018</b>	<b>Year 2 – 2019</b>	<b>Year 3 – 2020</b>
4,550 – 4,700 loans	4,700 – 4,900 loans	5,000 – 6,000 loans

This objective will provide liquidity of more than \$460 million per year to small financial institutions that serve high-needs rural regions. Freddie Mac believes that deliberately increasing our engagement with small financial institutions to provide liquidity will notably improve access to credit in rural markets because we have heard that these lenders are limited in resources, available products and outreach capacity.

# Duty to Serve Website

<http://www.freddiemac.com/singlefamily/duty-to-serve/>

Supporting underserved markets by financing more **rural and manufactured housing** and **preserving more affordable housing** for homebuyers nationwide.



## MANUFACTURED HOUSING

A viable source of sustainable, energy-efficient and affordable homeownership.



## RURAL HOUSING

Removing barriers and supporting innovative solutions to support homeownership.



## AFFORDABLE HOUSING PRESERVATION

Let's keep affordable homes available long term and reduce housing costs.

## Questions?

You have two options to ask questions today:

1. Email us at: [communities@stls.frb.org](mailto:communities@stls.frb.org)
2. Click the “Ask Question” button in the webinar



# Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

## Next steps:

- All session materials are available on our website, and in the next few days, we will post an audio file of today's session.
- If you have topical suggestions for future sessions or any questions about this program, please feel free to contact us at [communities@stls.frb.org](mailto:communities@stls.frb.org).
- Information about future sessions will be posted on our website along with archived materials from past sessions: <https://bsr.stlouisfed.org/connectingCommunities>

# Related Resources



**FedCommunities.org**  
Federal Reserve community development resources promoting  
people, place, policy and practice, and small business

In connection with this session, you can find a variety of additional resources on this topic, available at **[www.fedcommunities.org](http://www.fedcommunities.org)**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the policy and practice of community development, or small business development.