

July 10, 2017

The Honorable Melvin L. Watt  
Director  
Constitution Center  
400 7th Street, SW  
Washington, D.C. 20219

RE: Fannie Mae and Freddie Mac Duty-to-Serve Plans

Dear Director Watt:

On behalf of the members of the Community Development Bankers Association (CDBA), we respectfully submit the enclosed comments on the Proposed Underserved Market Plans of Fannie Mae and Freddie Mac (“Enterprises”) under the Duty to Serve requirements of Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing and Economic Recovery Act of 2008.

CDBA is the national trade association of banks and thrifts with a primary mission of promoting community development. There are currently 139 banks and 87 bank holding companies with the US Treasury Department’s certified Community Development Financial Institutions (CDFI) designation – which means at least 60% of total lending, services and other activities must serve Low- and Moderate-Income (LMI) communities. CDFI banks work in impoverished urban neighborhoods and remote rural areas with declining economic bases. The urban, rural and Native American communities CDFI banks serve are among those that have experienced the most acutely stagnant or declining economies characterized by high unemployment and poverty, lack of real opportunity for residents, and widening inequality with the rest of the nation.

I. CDFI Partnerships

We recommend that Fannie Mae and Freddie Mac embrace partnerships with CDFI banks as a central element of their Duty-to-Serve strategies. Lack of decent, affordable housing is a key challenge faced by many residents of communities served by CDFI banks. CDFI banks are on the front-line of addressing the need for affordable housing in the types of markets -- including the high needs rural regions of the Lower Mississippi Delta, Middle Appalachia, Colonias, Native American, and rural Persistent Poverty census tracts -- that are the focus of the Underserved Market Plans. Per the requirement of the Federal Housing Finance Agency that the Enterprises seek to support Small Financial Institutions (12 C.F.R. § 1282.34 (d) (1)), CDFI banks should be considered ideal partners with an average asset size \$353 million<sup>1</sup>.

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<sup>1</sup> Average asset size of all CDFI banks is \$353 million at Q1 2017 per the FDIC Call Reports. The largest CDFI bank is \$2.77 billion and the smallest is \$24 million.

CDBA welcomes the opportunity to engage in a deeper dialogue with the Fannie Mae and Freddie Mac on how to develop pilot initiatives tailored to the needs of underserved communities. We specifically recommend that the Enterprises create Underserved Markets Advisory Committees comprised of CDFIs and other affordable housing lenders focused on providing on-going guidance and input on implementation of the Enterprises plans.

## II. Rural Housing

Home ownership is one of the most effective ways to help Low-and Moderate-Income (LMI) families to build assets and economic security. Yet, there are real barriers that prevent rural lenders in high needs regions from extending mortgage credit than can be sold to the Enterprises. Low housing values in high need rural markets can result in market aberrations that do not fit the current Mortgage Backed Securities (MBS) model.

- Minimum Loan Size: The minimum for a single-family loan sale to the secondary market is \$80,000. Yet, in some rural communities, home sales range from \$25,000 to \$50,000.
- Appraisals: Rural loans often cannot meet the Regulation Z appraisal requirements due to lack of timely comparable sales; thus, the loans cannot qualify as conventional loans to be sold.
- Closing Costs: Closing costs can also be barrier to home ownership for LMI families. While some closing costs can be wrapped into a mortgage, if the loan exceeds the MBS loan-to-value ratios, it cannot qualify for sale to the Enterprises. Closing costs must also be calculated into the APR. The lower mortgage amounts of loans in rural markets can trigger a high cost mortgage classification and make a loan a non-Qualified Mortgage. While CDFIs are exempt from the Ability-to-Repay requirement of the Qualified Mortgage rule, this provision distorts the availability of credit in rural markets generally.
- Subsidies: Declining populations in rural areas can significantly distort housing market values – particularly in high need rural regions. The cost of building new or renovating existing substandard housing often exceeds the market value of the units. Without subsidy, these projects cannot be financed.

We recommend that Fannie Mae and Freddie Mac engage in partnerships with CDFI banks to pilot new initiatives that will provide greater flexibility with respect to minimum loan sizes, appraisal requirements, minimizing closing costs, and providing down payment assistance or other subsidies to fill single-family mortgage gaps in high need rural communities.

## III. Affordable Housing Preservation

Many CDFI banks finance multifamily housing in high cost urban markets where the lack of affordable housing is acute. The 2017 State of the Nations' Housing Report by the Harvard Joint Center for Housing Studies found that 38.9 million households pay more than 30% of the income for housing costs – of which 18.8 million are severely burdened and pay more than 50% of their income for shelter. A 2017 National Low Income Housing Coalition study found that for every 100 extremely low-income renters (earning 30% of area median income) in 2015, only 35 rental units were affordable at the 30% standard, in adequate condition, and not occupied by higher income households. In seven metros, fewer than 20 units were affordable and available for every 100 extremely low-income renters. To compound the problem, over the next several years, millions of units of federally subsidized affordable housing are projected to lose their low-income use restrictions.

Among the greatest barriers in financing multifamily affordable housing in high cost markets is the lack of subordinated capital to fill gaps in projects' sources of funds. Most CDFI banks can provide financing for up to 80% of loan-to-value. Yet, many projects need a layer of subordinate financing when the loan-to-value of a project exceeds this threshold. In addition, the availability of longer term financing products (i.e. 40 years) could help projects with thinner cash flows become more financially feasible.

We recommend that Fannie Mae and Freddie Mac engage in partnerships with CDFI banks to pilot new initiatives and products that will fill gaps in the capital stack that can expand the supply of affordable housing.

On behalf of the membership of CDBA, we thank you for the opportunity to comment on the Proposed Duty-to-Serve plans and look forward to continued dialogue.

Sincerely,



Jeannine Jacokes

Chief Executive Officer

On Behalf of the Membership of the Community Development Bankers Association

ABC Bank (IL)	Farmers & Merchants Bank (MS)
Albina Community Bank (OR)	First American International Bank (NY)
BankFirst Financial Services (MS)	First Eagle Bank (IL)
Bank of Anguilla (MS)	First Independence Bank (MI)
Bank of Commerce (MS)	First Security Bank (MS)
Bank of Kilmichael (MS)	First SouthWest Bank (CO)
Bank of Lake Village (AR)	FNBC Bank (AR)
Bank of Montgomery (LA)	Guaranty Bank and Trust Company (MS)
Bank of Rio Vista (CA)	Illinois Service Federal (IL)
Bank of Vernon (AL)	Industrial Bank (DC)
Bank of Winona	International Bank of Chicago (IL)
BankPlus (MS)	Legacy Bank and Trust (MO)
Beneficial State Bank (CA)	Mechanics and Farmers Bank (NC)
Broadway Federal Bank (CA)	Merchants and Planters Bank (MS)
Carver Federal Savings Bank (NY)	Metro Bank (KY)
Carver State Bank (GA)	Mission National Bank (CA)
Central Bank of Kansas City (MO)	Mission Valley Bank (CA)
Century Bank of the Ozarks (MO)	Native American Bank, N.A. (CO)
Citizens National Bank (MS)	Neighborhood National Bank (CA)
City First Bank of D.C., N.A. (DC)	NOAH Bank (PA)
City National Bank of New Jersey (NJ)	Northern Hancock Bank & Trust (WV)
Commercial Bank (MS)	OneUnited Bank (MA)
Community Bancshares of Mississippi (MS)	Pan American Bank (IL)
Community Bank of the Bay (CA)	Peoples Bank (MS)

Planters Bank (MS)  
PriorityOne Bank (MS)  
Richland State Bank (LA)  
RiverHills Bank (MS)  
Security Federal Bank (SC)  
Southern Bancorp, Inc. (AR)  
Spring Bank (NY)  
Start Community Bank (CT)  
State Bank & Trust Company (MS)  
Sunrise Banks (MN)

Sycamore Bank  
The First, A National Banking Assoc. (MS)  
The Jefferson Bank (MS)  
United Bank (AL)  
United Bank of Philadelphia (PA)  
Urban Partnership Bank (IL)  
Virginia Community Capital (VA)