July 21, 2010

To whom it may concern:

Opportunity Finance Network\(^1\) appreciates the opportunity to comment. We recognize that the Departments’ joint request for public participation is a first step in this important debate, and we look forward to working with the Administration, Congress, and the financial services community to shape a housing finance system that helps us as we strive to align capital with social, economic, and political justice.

While most debate on the government role in the housing finance system has centered around the future of Fannie Mae and Freddie Mac (the “Enterprises” or GSEs), the GSEs are only one part of a range of institutions and policies that influence the housing finance marketplace. The conversation must include consideration of a range of stakeholders and market participants, including community development financial institutions (CDFIs).

CDFIs are increasingly critical players in the housing finance landscape. More important, they have long been important players in the responsible lending landscape. CDFIs offer credit, capital, and financial services to promote sustainable homeownership; counter predatory products and services; develop affordable multifamily and rental housing; and pioneer innovation in financing such markets as shared-equity housing and manufactured housing. CDFIs had more than $6.6 billion in housing financing outstanding that had created nearly 30,000 housing units. Examples of CDFIs’ work in the housing arena is included as an appendix to this letter.

In working in these markets often overlooked by conventional financial institutions, CDFIs leverage small amounts of public subsidy into billions of dollars in new private investment. According to the U.S. Treasury Department, CDFIs leverage $15 in private investment for each federal dollar invested.

Because the contributions of CDFIs are critical to the health of the overall housing market, public policy affecting housing finance must account for CDFIs role and support their work. Supporting CDFIs can also impact other goals central to the housing finance system, which should:

- Serve all segments of the housing market, and actively and aggressively promote the development of affordable housing. Affordable housing is not an activity for the “fringe” markets but instead should be a mainstream consideration in housing policy.

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\(^1\) Opportunity Finance Network, the national network of more than 170 financial institutions, creates growth that is good for communities, investors, individuals, and the economy. Its members include CDFIs and other opportunity finance institutions that work just outside the margins of conventional finance to bring those markets into the economic mainstream and to help the economic mainstream flow into those markets. CDFI financing has resulted in significant numbers of new jobs, jobs preserved, quality, affordable housing units, and new commercial and community facility space in all 50 states. Over the past 30 years, the Opportunity Finance industry has provided more than $30 billion in financing that would not otherwise have happened in markets that conventional finance would not otherwise reach.
Incorporate support for multifamily rental housing as well as for sustainable homeownership (single-family housing).

Take proactive steps to promote responsible lending and curb abusive and predatory lending.

The Role of Community Development Financial Institutions

Just as affordable housing finance is not an activity for the “fringe markets,” neither should CDFIs be left at the fringes of the affordable housing system. CDFIs and other opportunity finance institutions lend every day to those often perceived as poor credit risks. They do so by offering innovative products and services, and by coupling their investments with technical assistance that helps borrowers understand their transactions and be better prepared for their obligations. In this role, CDFIs are integral participants in the affordable housing finance marketplace. A sampling of the CDFI industry indicates that:

- CDFIs had more than $6.6 billion in housing financing outstanding that had created nearly 30,000 housing units.
- More than 16,000 mortgages were provided by CDFIs comprising just 10 percent of the CDFI industry during this period.
- Since fiscal year 2001, CDFIs have provided more than 55,000 organizations and 1,000,000 individuals with group-based training and one-on-one technical assistance.

In 2008, Congress took one step in recognizing this key role by explicitly making CDFIs eligible to become members of the FHLB system. Despite such acknowledgment of their important work, CDFIs generally lack access to the capital markets supported by the housing finance system. In part because of this lack of access, CDFI housing lenders are experiencing liquidity challenges that inclusion in more mainstream sources of housing finance could help solve.

Policies that would boost CDFI capacity to contribute to housing finance include:

- A funding stream analogous to the current Capital Magnet Fund, derived from a levy on the public or government-sponsored players in the housing market. The $80 million the CDFI Fund will award in this program in 2010 will leverage at least $800 million in additional private investment in affordable housing in both the homeownership and rental housing sectors.

The Capital Magnet Fund allows CDFIs and other mission-driven developers to do what they do best: leverage private investment into poor communities. The Capital Magnet Fund takes resources that the GSEs earn, partly on the strength of their special relationship with the government, and puts them to work more effectively and more directly than either Fannie or Freddie have demonstrated they are able to do independently.

Credit facilities. Fannie Mae has provided loans to CDFIs that have constituted an important source of low-cost, flexible capital for their affordable housing work. However, as the Federal Housing Finance Agency has more narrowly defined “core business activities,” such credit facilities have been curtailed, impacting CDFIs’ ability to provide financing in their markets. Working with CDFIs can and should be a “core business activity” of housing finance.
Purchasing loans from CDFIs. Some innovative CDFIs have developed partnerships, primarily with Fannie Mae, to facilitate purchase of CDFI loans. One such program involving North Carolina CDFI Self-Help has resulted in $4.5 billion in affordable mortgage loans, helping more than 50,000 families. The housing finance system should strive to replicate this success and develop innovative ways to develop a secondary market for CDFI loans.

Including CDFIs in any underserved market definitions, and including in any housing goals or obligations a requirement that any public or quasi-public entities lead the industry in working with CDFIs.

Support for Affordable Housing
In addition to fulfilling the critical functions of liquidity and risk management, the infrastructure for housing finance must ensure wide access to affordable housing for low and moderate income families. Responsible, sustainable promotion of both homeownership and multifamily housing benefits all the nation’s citizens and the economy.

When managed responsibly, policies to promote homeownership work. The way that most Americans move forward in the economic system is through asset-building, and home ownership is the most significant asset that most households will acquire. Helping Americans build assets, including home equity, is one of the most cost-effective, sustainable investments a society can make. The time that the Enterprises have been in conservatorship has seen significant declines in homeownership, with particular erosion among minority and low-income households. The national homeownership rate slid from its peak in 2004 to 67.3 percent in the first quarter of 2009, erasing all of the gains since 2000. In addition to declines in the overall homeownership rate, current data show significant gaps in homeownership rates across racial, income, and age groups, with minority and low-income aspiring homeownership rates lagging.

The current system obligates the GSEs to play a role in correcting these imbalances in a number of ways: specific affordable housing goals for Fannie Mae and Freddie Mac, and, since HERA, for the FHLBs; the Affordable Housing Program in the FHLB; and duties to “lead the market” in providing products and services that develop and facilitate affordable housing. These obligations should be retained in any successor housing finance system.

Options for supporting affordable housing in a reformed housing finance system could include but are not limited to:

An affirmative fiduciary obligation that directs private-sector housing finance toward affordable housing. Just as banks and thrifts currently have Community Reinvestment Act (CRA) obligations and flexibility in fulfilling them, players in the housing finance market can and should have a number of tools available to meet this obligation, depending on their markets, structure, activity, and capacity. Organizations could offer products and services directly to low-income or low-wealth consumers; invest in CDFIs, community development corporations, or other community-based institutions; lend or invest in partnership with other institutions; or develop other, innovative instruments for lending and investment.

Affordable housing goals, similar to those of Fannie Mae and Freddie Mac in the current system, which has ensured mainstream market attention to affordable housing finance. The GSEs’ charter provides for activities that benefit low and moderate income families to have lower, albeit still profitable, returns than other products, a principle that should continue.

Continuing the GSEs’ (or their successors) explicit “duty to serve” obligations and requirements to “lead the market” in reaching underserved places and populations to ensure financing, investment, and credit reaches rural and special needs housing.

Maintaining the commitment to and duty to lead the market in fostering manufactured housing; preserving and expanding the nation’s stock of affordable housing by promulgating and enforcing regulations that specify the eligibility of manufactured housing for existing federal programs that support the development, financing, and rehabilitation of affordable housing.

Support for Multifamily Housing
Though support for homeownership is an important a priority, homeownership is not and never will be the best option for every family. Public policy must also facilitate the development and use of affordable multifamily and rental housing.

The National Low Income Housing Coalition’s Out of Reach publication annually documents the lack of affordable rental housing. The 2010 edition indicates that, as in previous years, significant gaps in this market persist.  

Specific activities that should be part of an affordable housing system supporting multifamily housing could include:

1. Maintaining and reinvigorating a secondary market for Low-Income Housing Tax Credits.

2. Adding shared-equity homeownership to any underserved market definitions, and require the GSEs’ or their successors to lead the industry in duplicating mortgage bundling and secondary mortgage purchases of land trust housing, housing cooperatives, and limited equity condominiums. (Currently, the GSEs “bundle” shared equity mortgages only in Washington, DC and New York City). This will position shared-equity housing on a par with single-family homes as “portable assets.”

3. Preserving Low Income Housing Tax Credit (LIHTC) properties nearing expiration (year 15) by providing new LIHTC allocations to restructure expiring-use properties; facilitating the appropriate use of reserves through year 15, not just in middle years; and requiring that a soft junior loan (e.g., a nonamortizing, low- or no-interest cash flow loan) not have a repayment trigger when the property is sold or refinanced.

Promoting Responsible Lending
The “subprime” mortgage market is and will continue to be an important niche in housing finance. CDFIs have long specialized in providing responsible mortgages to consumers who may

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not qualify for a prime loan. Owning a home can be a powerful tool for low and moderate income families to build wealth, but not if administered without assessing the risks. The results of the reckless marketing of predatory subprime loans is abundantly clear today: more than 200 lenders out of business, negative economic effects that extend throughout the housing market and even the global economy, and billions of dollars of lost wealth for families that already lagged behind financially. Beyond its direct effect on homeowners, reckless subprime lending also affects surrounding neighborhoods and the wider community.

For most of their history, Fannie Mae and Freddie Mac were leaders in promoting responsible lending: issuing business guidelines to industry participants to avoid purchasing loans with abusive features; expanding the application of conventional conforming practices to the subprime market; promoting financial literacy with the “Don’t Borrow Trouble” campaign, and supporting lenders in developing alternative products. In addition to ensuring that abusive loans do not have a secondary market outlet, support for CDFIs as detailed above would also go far in promoting responsible lending as a cornerstone of housing finance policy.

Conclusion
The objective of reforming the nation’s housing finance system should ensure that the functioning of the whole system is advanced. Fannie Mae and Freddie Mac are only one part of a whole set of institutions that support housing finance. Other players run the gamut from public and quasi-public entities such as the Federal Housing Administration, the Veterans’ Administration, the Federal home Loan Bank system, and Ginnie Mae; agencies that directly provide and oversee housing-related resources, including the U.S. Departments of Agriculture and of Housing and Urban Development; private sector lenders including commercial banks, thrifts, community banks, community development financial institutions, credit unions; private issuers of mortgage-backed securities; mortgage brokers; and a wide range of other stakeholders and market participants. Consideration of housing finance reform must go beyond restructuring of Fannie Mae and Freddie Mac and look as well at wider housing finance system and the context of broader housing policy objectives.

OFN looks forward to participating in the ongoing debate about the future of housing finance, particularly to ensure the participation of CDFIs and opportunity finance institutions in the discussion. Please do not hesitate to contact me for more information or if you questions about the recommendations in this letter.

Sincerely,

Mark Pinsky
President and CEO
Clearinghouse CDFI
Frank and Terri King
Placentia, California

When Frank and Terri King lost their home in January 1998, their finances began to spiral downward. Unable to afford the high rents in Orange County, the couple and their four children moved in with Mr. King's parents and started saving for another house.

That goal proved elusive. When their financial problems persisted, the Kings filed for bankruptcy. Even when they did manage to put away some money for a down payment, they could not get a decent loan from a traditional lender. "If we could qualify, it was at such a high interest rate that, with housing prices going up the way they were, there wouldn't have been any way I could have afforded to get into a house," Mr. King says.

Mr. King and his family lived with his parents for eight years. But everything finally began to change when he saw a flyer for Clearinghouse CDFI and gave them a call.

Launched in 1997, Clearinghouse CDFI is a for-profit corporation committed to financing "unbankable" projects benefiting low-income families and underserved communities throughout the state. The organization provides direct loans for affordable housing, community development projects, small businesses, and other activities qualified under the Community Reinvestment Act. In 2006 alone, Clearinghouse CDFI funded 260 loans totaling $137 million.

The Kings were among the borrowers Clearinghouse CDFI financed in 2006. Clearinghouse gave them a $324,000 first mortgage at 5.125 percent. The CDFI also helped them to secure a Mortgage Assistance Program loan from Orange County to make the down payment.

When the Kings moved into their house in Placentia, they felt as though they had come home again. "It gave us a sense of completeness," Mr. King says. "It had seemed like something was missing, then once we had our home, it was just overwhelming. My wife would cry at the drop of a hat, just thinking about having a home again."

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Excerpt from: The Next American Opportunity: Good Policies for a Great America
Homes in America | Homeownership

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Housing Assistance Council
Proyecto Azteca
San Juan, Texas

Hector Armando Gurrola and his wife, Yolanda, lived in the colonias along the Texas-Mexico border in a dilapidated mobile home with no air conditioning or heating. But in 2005, their lives were transformed when they moved into a new home, thanks to Proyecto Azteca.

Proyecto Azteca is a small, rural nonprofit housing development organization located in the Lower Rio Grande Valley of Texas. Created in 1991 by the United Farm Workers and Texas Rural Legal Aid, Proyecto Azteca is dedicated to building decent, affordable housing for low-income colonia residents, especially farm workers.

Proyecto Azteca's housing program is designed to empower the low-income families it serves. The families receive materials, tools, and training and do almost all the construction work on their homes themselves (called sweat equity), which enables them to develop new job skills. Moreover, their mortgages are tailored to their circumstances. Typically, Proyecto Azteca's loans cover the lots and homes, with zero interest and monthly payments of about $100.

Since 1996, Proyecto Azteca has received more than $1.196 million in predevelopment loans from the Housing Assistance Council (HAC), Washington, DC. Founded in 1971, HAC is the only national intermediary focusing on the development of affordable housing in rural communities. It emphasizes local solutions, providing loans and technical assistance to enable local public, nonprofit, and private organizations to improve housing conditions in their own communities.

HAC's financing has allowed Proyecto Azteca to build 127 homes. For people like the Gurrola family, it means being able to live in a safe, decent home—and so much more. "Those families now have better physical and emotional health, their children are doing better in school, and they are accruing wealth in the land and house that they were able to purchase with HAC's assistance," says Ann Cass, Executive Director of Proyecto Azteca. "How can all of that be measured? It is priceless."

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Self-Help Credit Union
Carl and Doreen McAllister Wake County, North Carolina

The McAllisters* had lived in their home for years and had always made their mortgage payments on time. But when an unexpected drop in their income forced them into bankruptcy, they faced the prospect of losing their house.

While the McAllisters were in bankruptcy, a new lender took over the servicing of their mortgage and claimed that the McAllisters owed $13,000 in overdue payments and late fees. The McAllisters maintained that they had made their payments when due. And they knew that they could never afford to pay their mortgage and the past due amount the lender demanded.

The local nonprofit legal aid service that was helping the McAllisters settle the dispute also referred them to Self-Help Credit Union (Self-Help CU).

Self-Help CU is an affiliate of Self-Help, one of the largest community development financial institutions in the United States. Since its founding in 1983, Self-Help has provided $4.5 billion in financing to 45,000 homeowners, small business owners, and nonprofits nationwide. The organization also operates the Center for Responsible Lending, a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices.

In 2006, Self-Help CU provided the McAllisters with a new $113,000 fixed-rate mortgage, which enabled them to escape their predatory loan and remain in their home. The interest rate on their new loan was 7.5 percent, a welcome change from the 13 percent they had been paying.

Since getting the loan in 2006, the McAllisters have made all their payments on time and are well on their way to rebuilding their credit. According to Culley Holderfield, the Self-Help CU loan officer who assisted the McAllisters, that's all part of the plan. "Our mission is to help people build wealth through homeownership," Mr. Holderfield says. "If we have folks who are losing wealth as the result of predatory practices, we want to help them to right their ship, so their home can stop being a burden to them and they can start building some equity."

*Not the clients' real name.

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New Hampshire Community Loan Fund
Lakes Region Cooperative
Belmont, New Hampshire

When the owners of the 111-site Lakes Region Cooperative manufactured housing park refused—for a second time—the tenants’ offer to purchase the property, the tenants in the co-op feared the worst. They suspected that the owners were about to sell the property to another buyer—a move that would certainly mean higher rents—and they turned to the New Hampshire Community Loan Fund (NHCLF) for help.

Since its founding in 1983, NHCLF has been guided by the belief that low-income people can achieve long-term economic stability if they are given access to capital resources and the knowledge to use them. The organization is a leading provider of financing for manufactured housing parks and has made more than 1,400 loans totaling more than $100 million to build housing, create jobs, and support essential services.

NHCLF officers learned of the threat the Lakes Region co-op faced on a Wednesday. They held an emergency meeting of the loan committee on Thursday and, within hours, approved a $2.3 million loan for the tenants. The very next day, the owners of the park announced that they had indeed found a new buyer and gave the co-op until the following Monday to buy the property. When Monday arrived, the owners were more than a little surprised to discover that the tenants were willing and able to make the purchase.

The co-op later learned that the new buyer had promised to limit annual rent increases for current tenants to six percent per year for the first five years—a deal the buyers considered quite generous. During the eight years it has owned the property, the co-op has increased rents only once—by $20 per month. It has also managed to make several improvements, including replacing the well house, paving roads, and replacing septic systems.

“My favorite part of living here is the freedom of ownership,” says Lois Parris, Founding President of the Lakes Region Cooperative. “When we first bought the park, I remember my first feeling, that no one could take this away from us, not our homes, not our park. We owned it.”

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National Housing Trust Community Development Fund

Aeon
Minneapolis, Minnesota

The interest in "green" homes and commercial properties has grown dramatically in recent years. Now an innovative pilot project in Minnesota is looking at ways to apply the principles of sustainable design to the development of affordable multifamily housing.

The project began in 2006 when Aeon, a nonprofit developer of affordable housing for the Twin Cities metro area, launched a partnership with the Green Institute and the Center for Sustainable Building Research at the University of Minnesota to explore the practical aspects of making existing and new multifamily housing sustainable. Their goal: to develop information that Aeon and other affordable housing developers could apply in their multifamily projects in the future.

To that end, Aeon has purchased the Har Mar Apartments, a 120-unit community in Roseville built in 1968, and is working with its two partners to develop a plan to rehabilitate the property, creating a thoroughly sustainable product that will thrive for another century. Aeon expects to complete the rehabilitation in the summer of 2010.

For predevelopment financing, Aeon turned to the National Housing Trust Community Development Fund (NHTCDF) of Washington, DC, a national nonprofit dedicated to providing affordable housing developers with the crucial predevelopment and interim development financing that commercial lenders typically do not offer. NHTCDF provided Aeon with a $110,000 predevelopment loan—at five percent interest—from its Green Affordable Housing Preservation Loan Fund, which was created to encourage nonprofit developers to incorporate green principles in projects for low-income families.

"It’s great that NHTCDF has a program designed to promote sustainability," says Maureen Michalski, Aeon Project Manager. "And it is very important for us to have the lower-interest financing that NHTCDF offers. It really helps us cut down our holding costs while we’re applying for funding for the development. It just helps the bottom line."

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Housing Partnership Fund

Seven Courts Apartments
Atlanta, Georgia

After years of neglect, the Seven Courts Apartments in Atlanta are being transformed into a vital community resource, thanks to an inspired partnership between Progressive Redevelopment Inc. (PRI) and the Housing Partnership Fund (HPF).

The new vision for the property came from PRI, a leading nonprofit developer of affordable housing in Georgia. PRI’s plan was to rehabilitate the building and to reserve all 171 units for low-income tenants. Twenty-nine units—17 percent of the total—would be set aside for homeless families and others with special needs.

Because of the complexities of the project’s construction financing, PRI needed bridge funds to acquire the Seven Courts Apartments and hold them until the construction financing was in place. PRI turned to HPF, a certiﬁed community development financial institution and a lending affiliate of the Housing Partnership Network, a peer network and business alliance of high capacity, entrepreneurial development nonprofits. HPF has provided financing to 32 members of the Housing Partnership Network, enabling them to build and acquire more than 12,000 affordable homes valued at nearly $1 billion.

HPF came through with a $1.75 million acquisition loan for PRI. “Without the acquisition loan, we would not have been able to develop this project,” says Richelle Patton, Vice President of Project Development at PRI. “We found the HPF loan staff to be easy to work with, supportive of our mission, and patient as our construction closing took longer than expected.”

The renovated Seven Courts Apartments opened in May 2008. In addition to developing and managing the property, PRI provides on-site support services through its resident services division, CaringWorks Inc. Among the services CaringWorks provides are individual case management, crisis intervention, and referrals to a wide variety of outside social service agencies—all designed to empower tenants and improve their quality of life.

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