

United States Senate

June 6, 2019

The Honorable Dr. Mark A. Calabria
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

Dear Director Calabria,

Following the Banking Committee's March hearings on the housing finance system, I am writing to highlight several key areas that I believe should be prioritized in any housing finance reform effort. Since the financial crisis, Congress and federal regulators have worked to stabilize the housing finance system and strengthen both the primary and secondary mortgage market. As we now consider reforms to the housing finance system, it is imperative that we preserve the progress being made in these areas and that these gains are not lost.

Specifically, I ask that you:

Retain specific Duty To Serve requirements for affordable housing, manufactured housing, and underserved rural and tribal communities.

The Housing and Economic Recovery Act (HERA) of 2008 directed the government-sponsored enterprises (GSEs) to develop plans to serve underserved markets. The first Duty To Serve (DTS) plans went into effect in 2018, and have already resulted in promising initiatives to target specific housing issues in rural and native areas and in the manufactured housing market. The value of DTS plans is their specificity; there are unique challenges in these markets that might not be addressed without the direction of Congress.

For example, manufactured housing is a critical source of affordable housing in Indian Country in Minnesota, where there are additional legal barriers to building a home on trust land. Often these homes are titled as personal property rather than real estate, which is a distinction that can determine available financing options. Under their DTS plan, Freddie Mac developed a pilot program that set out to better understand how they might develop a secondary market for these loans.¹ A housing finance system that does not direct guarantors to serve specific underserved markets might fail to address specific challenges like this one.

¹ "Personal Property Manufactured Housing (Chattel)," Duty to Serve, Freddie Mac, accessed June 5, 2019, <http://www.freddiemac.com/singlefamily/duty-to-serve/manufactured.html#mhModal2>.

Preserve or expand funding for the Capital Magnet Fund and the Housing Trust Fund.

HERA also created the Capital Magnet Fund (CMF), which provides funding to nonprofit organizations or Community Development Financial Institutions (CDFI) to develop affordable housing and the Housing Trust Fund (HTF), which supports the development of safe and affordable housing for low-income families. Both the CMF and the HTF draw funding through annual contributions funded through a small assessment on each loan purchased by the GSEs. Solace Apartments, the first project in Minnesota funded by the HTF, recently opened with 30 units of supportive housing for Minnesotans who have completed chemical dependency treatment programs.² The Twin Cities branch of Habitat for Humanity also recently broke ground³ on eleven new single family homes, a project made possible in part by a CMF award they received in fiscal year 2017.⁴ Since fiscal year 2010, Minnesota nonprofits have received approximately \$18 million from the CMF.⁵ Both the CMF and the HTF are dedicated specifically to helping the lowest income households and communities. We should not eliminate these resources or divert funds from this important funding stream to other programs that don't share these specific missions.

Require guarantors to support lending to low- and very low-income borrowers.

The GSEs current affordable housing goals require Fannie Mae and Freddie Mac to purchase a certain percentage of mortgages to low- and very low-income households. These goals allow mortgage originators in Minnesota and across the country to offer more loans to borrowers they might not otherwise be able to serve. To say that the private market would fill these gaps has been proven untrue.

In 2019, 20 percent of all homeowners in Minnesota were cost burdened, meaning they spent more than 30 percent of their income on housing costs.⁶ The median homeowner income has not grown nearly as fast as the median value of a home, meaning that homeownership is out of reach for more and more households.⁷ Finally, we know this problem won't remedy itself because the

² "Solace Apartments aim to create housing that reduces recidivism," Minnesota Housing Partnership, last modified December 5, 2016, <https://www.mhponline.org/blog/connect/723-solace-apartments-aim-to-create-housing-that-reduces-recidivism>.

³ Frederick Melo, "Habitat for Humanity Twin Cities breaks ground on 11 single-family homes in the North End," *Twin Cities Pioneer Press*, May 14, 2019, <https://www.twincities.com/2019/05/14/habitat-for-humanity-twin-cities-breaks-ground-on-11-single-family-homes-in-the-north-end/>.

⁴ "Capital Magnet Fund Award Book FY 2017," Community Development Financial Institutions Fund, U.S. Department of the Treasury, accessed June 5, 2019, <https://www.cdfifund.gov/Documents/Final%202017%20CMF%20Award%20Book%20031418.pdf>.

⁵ "Impact Data for Minnesota," Community Development Financial Institutions Fund, U.S. Department of the Treasury, accessed June 5, 2019, <https://www.cdfifund.gov/awards/state-awards/Pages/state-result.aspx?state=MN&Name=Minnesota>.

⁶ "State of the State's Housing 2019: Biennial report of the Minnesota Housing Partnership," Minnesota Housing Partnership, http://www.mhponline.org/images/stories/images/research/SOTS-2019/2019FullSOTSPrint_Final.pdf

⁷ Minnesota Housing Partnership, "State of the State's Housing 2019."

most in-demand and highest-growth jobs in Minnesota do not have earnings that would support a mortgage for a median-value home.⁸ Guarantors in the secondary market must have an incentive to support lending to low- and very low-income families so that the dream of homeownership doesn't slip out of reach for working families.

Ensure that rural and small lenders have access to the secondary mortgage market.

Following the financial crisis, Fannie Mae and Freddie Mac ended their practice of incentivizing lenders to sell them large groups of bundled mortgages. The practice of offering volume-based discounts put small lenders at a disadvantage. Small mortgage originators play a key role in the mortgage market. They expand access to credit in underserved areas and contribute to communities' stability, growth, and economic development.

Small lenders are currently able to sell small numbers of loans to Fannie Mae and Freddie Mac in exchange for cash. In communities that may only have one or two small lenders, this process allows those lenders to immediately make more loans and help meet the growing demand for credit in rural areas. I urge you to ensure that reforms to the housing finance system do not put small lenders at a disadvantage compared to large lenders.

Consult with tribes to ensure that any changes made to the mortgage market adequately support a variety of homeownership options in Indian Country.

According to the Minneapolis Federal Reserve Bank's Center for Indian Country Development, only 52.9 percent of Native Americans were homeowners in 2016,⁹ far below the national average that same year.¹⁰ The homeownership rate for Native Americans living in Indian Country is even lower, at around 33 percent.¹¹ The GSEs play a critical role in providing capital and guarantees to mortgages made on tribal lands, which helps to reduce this disparity.

The secondary mortgage market must be flexible enough to accommodate unique needs in Indian Country. In Minnesota, there are many paths to homeownership: manufactured homes, site-built homes with mortgages made by private lenders, the HUD 184 Indian Home Loan Guarantee Program, Veterans Affairs mortgages, or financing from a Native Community Development Financial Institution. In order to reduce disparities in homeownership, our housing finance system must support a variety of financing options and work to reduce the unique barriers to

⁸ Ibid.

⁹ "Tribal Leaders Handbook on Homeownership," Center for Indian Country Development, Federal Reserve Bank of Minneapolis, last modified 2018, <https://www.minneapolisfed.org/~media/files/community/indiancountry/resources-education/cicd-tribal-leaders-handbook-on-homeownership.pdf?la=en>.

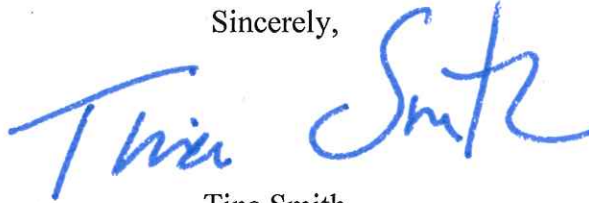
¹⁰ "Homeownership Rate for the United States: Annual, Not Seasonally Adjusted," Economic Research, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/USHOWN>.

¹¹ "Duty to Serve Underserved Markets Plan," Fannie Mae, last modified 2018, <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Fannie-Mae-Revised-Underserved-Markets-Plan-2018.pdf>.

owning a home in Native communities. I urge you to analyze how all proposed changes to the secondary mortgage market may have an impact on access to home financing on tribal lands.

I am eager to work with you on these issues and other proposed reforms.

Sincerely,

A handwritten signature in blue ink that reads "Tina Smith". The signature is written in a cursive style with a large, sweeping "S" for the first letter of "Smith".

Tina Smith
United States Senator