

EMPOWERMENT ZONES

Capital Formation for Housing

**STATUS REPORT
EMPOWERMENT ZONES SUB-GROUP ON
CAPITAL FORMATION FOR HOUSING AND COMMUNITY DEVELOPMENT
SEPTEMBER 15, 1993**

The subgroup on capital formation for housing and community development has focused on ways to increase and maximize the capital investment for housing and community development in empowerment zones, with particular attention paid to the potential contributions from the government sponsored enterprises (GSEs) -- Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

The group met with Fannie Mae twice and continues to work with them on developing the parameters for an investment "agreement" (described below). The goal is to have the agreement ready for announcement at the same time as Empowerment Zones are formally rolled out. The group also met with Freddie Mac on Thursday, September 9. A summary of these meetings follows. Future meetings will also include discussions with the Federal Home Loan Banks and the state housing finance agencies.

FANNIE MAE

The preliminary discussions with Fannie Mae highlighted several areas in which the GSEs could provide targeted assistance to neighborhoods designated as empowerment zones. During the application phase, Fannie Mae is prepared to provide detailed information on loan products and specialized programs that it offers homebuyers and housing organizations.

Most significantly, Fannie Mae is prepared to enter into a cooperative working agreement with the federal government and with those areas designated as empowerment zones. The overall goal of the agreement would be to facilitate the leveraging of public and private resources at the national and local levels, in empowerment zones by bringing together the key participants in the process: the federal government, Fannie Mae, and state and local entities. This agreement would be based in part on HouseOakland, a project currently underway at Fannie Mae (described below).

In general, this agreement would commit Fannie Mae to help localities assess their housing needs, identify the types of conventional loan products that could serve such needs and assist Fannie's seller/servicers network in providing such loans. The agreement should also include a specific dollar commitment level for Fannie Mae as well as guidelines for the agency's efforts within designated empowerment zones. Staff from Fannie Mae and HUD are working to make a preliminary identification of single and multifamily units in a cross section of 104 cities that in turn, will help Fannie Mae identify an overall volume/commitment

level.

Fannie Mae and USDA staff are also working to identify how GSE activity can best be tailored to rural empowerment zones.

HouseOakland

"HouseOakland" is Fannie's Mae's most recent initiative to pursue lending, investment, consumer outreach and other activities in support of affordable housing in the City of Oakland, California. It is a five-year joint venture with the city that is expected to generate \$1 billion in loans and investments for housing in Oakland.

The plan is also the pilot project of a broader effort by the agency to maximize its investment in central cities (in anticipation of the statutory GSE goals) and to increase its role as catalyst for local community development efforts by encouraging and leveraging investment of other private and public entities in central cities. Fannie Mae plans to carry out this broader effort in U.S. cities over the next few years.

HouseOakland will involve the active participation of Fannie Mae, the city of Oakland and the lending community. The initiative utilizes Fannie Mae's existing standard single and multifamily mortgage products and community lending programs, along with special initiatives involving both Fannie Mae and the City and tailored to Oakland's unique housing needs, including an emphasis on rehabilitation of existing housing.

One of the central components of the HouseOakland model that would be of particular significance to the empowerment zone agreement developed with Fannie Mae is the program's emphasis on an intensive assessment of housing needs. As conducted under HouseOakland, this assessment process brings together the local actors (elected officials, lenders, community representatives and others), to assess the overall need, to produce a comprehensive set of goals and objectives for the area and to identify the local resources (public and private) available to achieve the objectives. This intensive needs assessment would provide a valuable tool for empowerment zone communities in their planning process.

The other elements of HouseOakland that could also form the basis for a model in designated empowerment zones include:

Lending

promotion of Fannie Mae products to lenders, mortgage insurers, real estate agents, nonprofits and consumers for use in the designated area;

promotion of income-targeted single-family mortgage products to improve homeownership and affordability for low and moderate income households;

expansion of conventional multifamily financings in neighborhoods;

rehabilitation loans to homeowners;

modified or newly developed multifamily products that serve special needs populations; and

special project lending to support unique development or financing opportunities.

Investment

privately placed bonds to support special needs housing, multifamily projects, and first-time homebuyers through the mortgage revenue bond program;

Low Income Housing Tax Credit investments by Fannie Mae and other private sector investors for development of targeted low-income housing.

Other support

marketing to enhance interest and awareness of home buying opportunities in the area;

grants to support the City's effort to coalesce lenders and private sector investors to invest in housing.

FREDDIE MAC

The group met with Freddie Mac on Thursday, September 9, to discuss their potential involvement with Empowerment Zones. Since it was an initial meeting, the discussion with Freddie Mac focused on a more general involvement for the agency. Freddie Mac's central theme is that the health and vitality of communities as whole will be key to attracting capital to communities for long term investment. Consequently, their approach appears to be one that would focus more on national efforts rather than on work in specific empowerment zones or enterprise communities. Additional meetings with Freddie Mac should help to clarify their potential involvement.

The group was able, however, to identify several areas to work on in the coming weeks to more clearly define a discrete role for Freddie Mac. These include:

exploring the feasibility of working with the fund managers for Freddie Mac's Low Income Housing Tax Credit investments

to encourage the development of funds that include properties in empowerment zones and enterprise communities. Currently Freddie Mac invests in funds and the fund managers then choose the specific properties to build or renovate;

working to identify those Freddie Mac resources (programs, lenders, etc.) that would be available to local communities in the preparation of their strategic plans. This compilation of resources would be made available to communities as part of the NOFA and application process when the empowerment zones are announced;

developing a more aggressive program for the dissemination of information through their network of sellers/servicers, to encourage their individual cooperation with local communities;

ongoing evaluation of Freddie Mac underwriting guidelines to eliminate unnecessary barriers to community lending of single family mortgage products; and

continuing discussions with the group on the parameters for Freddie Mac's involvement in rural communities.