INDEPENDENT COMMUNITY BANKERS of AMERICA®

July 5, 2021

Sandra Thompson
Acting Director
Federal Housing Finance Agency
400 7th St. SW
10th Floor
Washington, DC 20219

RE: Short Term Rental Units in Condominium, Cooperative, and Planned Unit Development Projects

Dear Acting Director Thompson,

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to provide input and commentary to the Federal Housing Finance Agency (FHFA) regarding aspects of project eligibility requirements imposed by Fannie Mae and Freddie Mac (the Enterprises). More specifically, this Request for Input (RFI) focuses on eligibility requirements for condominium, cooperative (co-op) and planned unit development (PUD) projects that contain short-term rental units, offer transient housing options, and are more broadly considered "Short-Term Projects" by FHFA. Among the goals of this RFI are to determine whether it is appropriate to align Enterprise policies, potentially clarify any confusion about project compliance with Enterprise requirements, and to gather stakeholder feedback regarding the risks and evaluation methods appropriate for short-term projects.

ICBA appreciates that FHFA is taking steps to better understand and evaluate this growing segment of the housing market, particularly the attendant risks involved with these projects over the long term. It is important to address concerns about charter compliance and whether Enterprise policies are equipped to address the unique nature of short-term projects. To that end, we want to emphasize that these

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[1] *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.*

With nearly 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5 trillion in assets, over $4.4 trillion in deposits, and more than $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

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projects have long been challenging and cumbersome for community banks to underwrite. As noted in the RFI, "many sellers do not have the expertise to complete the underwriting required to manage risks that are commonly addressed through commercial insurance underwriting and appraisal practices."[2] We ask that FHFA continue to work to streamline the process for community bank lenders active in this space.

Responses from our members indicates a diverse range of perspectives about how FHFA should proceed in this area. Below represents some of the common themes based on banker feedback:

1. Most community banks recognize that there is a growing demand for short-term rental units. Those that are not active lenders in this space are often open to the possibility going forward. To the extent that they make these loans, it is common for community banks to keep these loans in their portfolio. Any steps FHFA makes that unnecessarily and/or inadvertently tighten the selling requirements may affect the value of the collateral.

2. Many community banks believe that current Enterprise guidelines are sufficiently specific and strong enough for these types of properties. Adding more stringent requirements is unlikely to help diminish the number of ineligible or risky loans sold to the Enterprises. Instead, there may be unintended consequences making it more difficult for those lenders who are already following the current guidelines.

3. Some community banks are reluctant to underwrite short-term projects for many of the reasons outlined in the RFI. One concern is that this type of project yields inconsistent income streams for the borrower, raising concerns of default risk and how, in aggregate, this might affect the safety and soundness of the Enterprises. As mentioned in the RFI, these types of properties are often more exposed to natural disaster risk and damages generally associated with transient housing.

Recommendations

The range of feedback above is evidence that FHFA should view this RFI as a prelude to a much more comprehensive study that determines and quantifies the risks associated with short-term projects. Furthermore, the study should help determine how changes to project eligibility requirements might

[2] https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/RFI-Short-Term-Rental-Units.pdf, p. 3.

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unnecessarily tighten project eligibility, making it more difficult for community banks to serve their customers in this growing space and negatively impacting the value of collateral for loans held in portfolio. The relatively recent proliferation of short-term projects, further complicated by their unique underwriting challenges, underscores the need for such a detailed study.

ICBA appreciates that this RFI shows that FHFA is mindful of and concerned about any potential unintended consequences resulting from changes to project eligibility requirements. We further ask that FHFA conduct a detailed study and continue to reach out to all stakeholders prior to any rulemaking. We look forward to working with you throughout this process.

Please feel free to contact the undersigned at tim.roy@icba.org if you have any questions regarding the content of this letter.

Sincerely,

Tim Roy
Director – Housing Finance Policy

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