



March 13, 2009

The Honorable Timothy Geithner
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

The Honorable Shaun Donovan
Secretary
U.S. Department of Housing and Urban Development
451 Seventh Street SW
Washington, DC 20410

Dear Secretary Geithner and Secretary Donovan:

On behalf of the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, the National Council of State Housing Agencies (NCSHA) thanks the Administration for its commitment to assist state HFAs as part of its Homeowner Affordability and Stability Plan to aid distressed homeowners and encourage home buying in support of the American people and our country's economic recovery. We especially want to acknowledge your personal efforts to prioritize and advance federal support to state HFAs.

We appreciate the time you, your staff, the transition teams that preceded you, and the Federal Housing Finance Agency (FHFA) have taken with NCSHA over the last several months to understand the significant contributions state HFAs could make to our housing and economic recovery with federal help to overcome the challenges they confront as a result of the financial crisis. As you know, HFAs are primed to produce hundreds of thousands of affordable, sustainable homes for working families, while generating tens of thousands of new jobs and millions in tax revenue if they could simply put to work the billions of dollars in federal housing assistance at their disposal, including the \$11 billion in new tax-exempt Housing Bond authority Congress allocated states last year specifically for housing recovery.

NCSHA is grateful for the steps the Administration has already taken to enable state HFAs to bring thousands of "shovel-ready" Low Income Housing Tax Credit (Housing Credit) rental developments to production by helping to secure in recent economic recovery legislation the resources necessary for HFAs to close financing gaps in these developments created by reduced Housing Credit

pricing. We thank you for working closely with us since the legislation's enactment to deploy these resources quickly and without unnecessary federal impediments to their use.

We understand that the Administration is now working aggressively on its plan to buttress state HFA lending programs by using Financial Stability Plan resources to enable new HFA Housing Bond issuance and to respond to HFA liquidity needs. We urge you to move quickly in both areas, as we know you agree that we cannot afford to have HFA resources idle when they could be contributing mightily to our recovery. As you finalize your plan, we also ask that you consider the elements described below, which HFAs consider essential to any successful federal intervention in support of their affordable lending programs.

Support New State HFA Housing Bond Issuance

NCSHA believes it is critical that Treasury create a market for state HFA tax-exempt Housing Bonds by purchasing them directly or through the housing GSEs, Fannie Mae and Freddie Mac. As you know, in strong and weak economies, HFAs have been a constant, reliable source of flexible, affordable mortgage money for lower-income first-time home buyers and rental housing developments. Through issuing single-family Housing Bonds, HFAs have made 2.6 million families first-time homeowners, adding another 100,000 families each year and anchoring the first-time homebuyer market while stimulating trade-up buying. HFAs have financed more than 2 million affordable rental homes with Housing Bonds, generating another 100,000 homes each year.

State HFA loan performance is strong, with delinquency and foreclosure rates well below those in the conventional market, even today. HFAs never turned to subprime mortgage products and have never defaulted on a Housing Bond. The strong infrastructure and capacity HFAs have developed over many decades with the help of their Housing Bond programs has made them the country's premier housing assistance delivery system, to which the federal government has entrusted the administration of several other major federal assistance programs, including the Housing Credit, HOME, and Section 8.

Unfortunately, state HFAs currently are unable to sell long-term Housing Bonds at interest rates that allow them to lend bond proceeds affordably. As a result, all HFAs have severely curtailed and several have suspended their lending programs. This comes at a time when HFAs are experiencing increased mortgage demand from lower-income families looking to take advantage of lower home prices and available housing stock to buy their first homes, distressed homeowners seeking to refinance unaffordable mortgages, and developers trying to respond to today's increased need for affordable rental housing.

It is essential that any federally supported HFA Housing Bond purchase program be of sufficient scale that all states and territories benefit from it. As of March 2009, 45 state HFAs report that they could issue a total of \$15 billion in Housing Bonds in 2009 and another \$18 billion in 2010. Every state reports

new issuance need. For the federal government to provide for less would shortchange our economic recovery and miss a unique opportunity to spur home buying and rental housing production.

NCSHA believes it is also vital that Treasury purchase or facilitate GSE purchase of Housing Bonds at interest rates that allow state HFAs to lend the bond proceeds at below-market rates, while covering their issuance costs. We recommend an interest rate advantage of at least 50 basis points below the conventional, 30-year fixed-rate mortgage rate, the relative advantage HFA Housing Bonds have achieved historically. Today's low interest rates may suggest to some that such a rate advantage is unnecessary. We believe it is crucial, in combination with the down payment and closing cost assistance, home counseling, and flexible yet prudent underwriting standards HFAs uniquely offer, to make homeownership possible and sustainable for working families.

We also urge Treasury to accommodate within its Housing Bond purchase program both "whole loan" programs in which state HFAs purchase loans and hold them in portfolio as collateral for their Housing Bonds and "mortgage-backed security or MBS" programs in which they swap loans for mortgage-backed securities. State HFAs should be permitted to continue to determine which model gives them the income generation and flexibility necessary to achieve their affordable housing goals.

Provide Liquidity to Support State HFA Variable Rate Debt Remarketing

NCSHA believes it is critical for Treasury to help state HFAs maintain their strong financial positions and lending capacity by helping them remarket their short-term Variable Rate Debt (VRD) by backing it with strong liquidity facilities, such as stand-by bond purchase agreements and letters of credit. Many HFAs issued VRD in recent years to enable them to advance their affordable housing mission by offering lower interest rates on and reaching even lower-income people with their loan products. HFAs currently have \$23 billion in VRD outstanding, with \$1.5 billion already expired or set to expire within the next three months and \$1.3 billion more due to expire by the end of the year.

Through no fault of their own, state HFAs now struggle to remarket their VRD, because the financial institutions they have traditionally relied on to remarket it and to serve as buyers of last resort have either withdrawn from this market, have been down-graded by credit rating agencies, or are charging excessive fees and imposing unfavorable terms for providing this liquidity. The lack of highly rated liquidity providers has driven traditional investors in VRD out of the market and caused those who remain or have recently entered the market to demand excessive rates.

State HFAs unable to find buyers for their VRD have been forced to convert it to "bank bond" status, requiring them to pay it off under accelerated amortization schedules at high interest rates. Twelve HFAs now hold \$3 billion in bank bonds. This VRD payment burden at minimum reduces the HFAs' productive housing activity and at worst threatens the financial health of the HFAs themselves.

NCSHA proposes Treasury provide state HFAs stand-by liquidity facilities to replace existing facilities. We further recommend that Treasury offer this liquidity with terms and pricing within traditional market parameters, meaning three to five year terms with pricing not to exceed 40-50 basis points, depending on term length. We also propose that bank bond “term-out” provisions include not less than ten-year amortization periods and interest rates no greater than the three-month LIBOR rate plus 125 basis points. Both whole loan and MBS HFA programs should be accommodated.

Facilitate State HFA Loan Sales to the GSEs

Another powerful way Treasury could help address state HFA capital and liquidity needs is to facilitate the purchase of HFA loans by Fannie Mae and Freddie Mac. HFAs use loan sale proceeds to pay off VRD and bank bonds and to make new mortgages.

Unfortunately, Fannie Mae’s and Freddie Mac’s loan purchase standards have tightened considerably over the last several months. The GSEs are not currently purchasing high Loan-to-Value (LTV) loans, which state HFAs have been making safely and responsibly for years and represent a large portion of their portfolios. Fannie Mae and Freddie Mac are also imposing more stringent underwriting standards than HFAs have found necessary to apply and higher purchase fees, including adverse market fees, than HFAs believe are justified. Fannie Mae is also not currently purchasing FHA-insured loans at all, which many HFAs have made in large volumes.

We ask that Treasury and FHFA work with the GSEs to design a state HFA loan purchase program that recognizes the high quality of HFA loans by easing purchase standards and pricing and thus expanding the number of HFA loans the GSEs are willing to buy.

Thank you for this opportunity to share with you our latest thinking on how to make the Administration’s state HFA plan as helpful as possible to HFAs, the people they serve, and our economic recovery. We look forward to continuing to work with you as you finalize and implement this plan.

Sincerely,



Barbara Thompson
Executive Director