

Future Housing Secondary Market Entities, Their Affordable Housing Responsibility, and the State HFA Opportunity

The National Council of State Housing Agencies (NCSHA) and the state Housing Finance Agencies (HFAs) we represent call on the Administration and the Congress to seize the opportunity of reform to establish a powerful commitment to affordable housing within any future housing Government-Sponsored Enterprises (GSEs) or other secondary market entities and to build upon the productive partnerships the existing GSEs and HFAs have formed to expand housing opportunity in this country. We further appeal to you to direct future GSEs to prioritize the use of the proven HFA delivery system to fulfill this commitment in a safe and sound manner and to give HFAs a role in the governance of the GSEs. NCSHA represents the HFAs of the 50 states, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands.

NCSHA believes a strong secondary market is an essential component of our country's housing finance system that must be preserved and strengthened to ensure the widespread availability of and ready access to mortgage capital. We further contend that federal government support of the secondary market is necessary to ensure the constant and stable flow of capital to all housing markets at all times, including periods of economic downturn.

Federal government support, however, must carry with it an affirmative and commensurate duty on the part of the secondary market—regardless of the number of entities of which it is comprised or their structure—to finance affordable and sustainable homes and to reach underserved people, markets, and needs, including low and moderate-income people, low-income communities and rural areas, and populations with special needs. These public-purpose obligations should be mandated and enforceable under federal law and regulation and not simply goals to which the entities aspire, without consequence for their failure to achieve them.

The secondary market's relationship with the federal government, the benefits derived from that relationship, and the public-purpose responsibilities those benefits compel must be clearly defined and understood. Secondary market entities must be held accountable for achieving their public purposes and further federal support must be conditioned upon their success in doing so.

NCSHA understands that some say future secondary market entities should not make affordable housing investments, because that is what caused Fannie Mae's and Freddie Mac's financial demise. We disagree. Buying affordable loans did not get Fannie Mae and Freddie Mac into financial trouble. Buying bad loans did.

While it is true that both Fannie Mae and Freddie Mac made investments in subprime, Alt-A, and other nontraditional mortgages that contributed significantly to their financial woes, they also made sound affordable housing investments in partnership with HFAs that have performed exceedingly well. It is also true that the Federal Home Loan Bank (FHLB) system is experiencing financial stress, but FHLB partnerships with HFAs have not contributed to it.

In fact, recognizing the reliability of HFA lending, Fannie Mae in recent years entered into several exclusive arrangements with HFAs, offering HFA customers preferred mortgage pricing and terms. Fannie Mae and Freddie Mac also purchased HFA mortgages because of their high quality, and several FHLBs extended HFAs liquidity, lines of credit, and advances on the strength of their loan portfolios.

HFAs have proven over many decades that affordable housing lending done right is good lending. HFAs do it right through a time-tested combination of low-cost financing; flexible, but prudent, underwriting; diligent loan documentation and income verification; down payment and closing cost assistance; homeownership counseling; proactive servicing; and aggressive asset management.

The Administration and Congress recognized this when they entrusted to HFAs billions in housing recovery resources, on top of the substantial resources they already commit to them annually to create affordable housing opportunity in this country. The Administration and Congress understood that HFAs we have consistently achieved, in both strong and weak economies, successful and sustainable housing outcomes by combining public purpose and accountability with sophisticated lending practices. They knew HFAs had not and would not engage in subprime or other risky lending.

Recently, the federal government has once more shown its confidence in HFAs and their lending practices with the Treasury Department's purchase of more than \$15 billion in HFA Housing Bonds to overcome the failure of the severely weakened private bond market to purchase Housing Bonds at rates that would allow HFAs to lend the proceeds affordably. Treasury also stood behind outstanding HFA bond issues, providing \$8 billion in liquidity to HFAs.

The Administration took these unprecedented steps in part to help HFAs put to use an additional \$11 billion in Housing Bond authority the Congress entrusted to them under the Housing and Economic Recovery Act of 2008, to boost the housing recovery with solid first-time home buyer lending. The Administration and Congress have committed billions more in federal housing recovery resources to HFAs through the Housing Credit Exchange and Tax Credit Assistance Programs, the Neighborhood Stabilization Program, the Administration's Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets, and other foreclosure prevention activities.

NCSHA urges the Administration to again turn to the time-tested and consistently high-performing HFA delivery system to extend the reach of any future GSEs or other secondary market entities and to help them achieve their affordable housing mandates. We urge you to direct these entities to prioritize their relationships with HFAs, to work closely with HFAs in designing their affordable housing programs and products, and to rely upon HFAs to carry out those activities within reasonable, yet flexible, parameters that allow them to respond to varied needs across the country. We ask you to instruct these entities to partner with HFAs in meaningful and innovative ways that complement, augment, and expand our activities, rather than compete or work at cross-purposes with them.

NCSHA feels strongly that effective fulfillment of their public purpose mandates will require secondary market entities to integrate wholly within their business cultures and across their operations a dedication to affordable housing and underserved market financing. These activities should be pursued by these entities broadly and consistently, not as side or niche businesses.

Though important and welcomed activities, the capitalization of housing trust funds, grant-making, and charitable giving should not alone fulfill these entities' public-purpose responsibilities. They must fully devote themselves to bringing about affordable and sustainable housing outcomes, especially in areas where market forces fail.

Secondary market entities should make low-cost capital available to support a broad range of affordable housing financing needs, including affordable homeownership lending; rental housing development; predevelopment, site acquisition, and construction lending; subordinate lending; and small and mixed-property financing. They should provide support in a variety of ways, including through the purchase and securitization of mortgages, lines of credit, and loan guarantees, all with reasonable rates and terms. They should invest in Low Income Housing Tax Credits (the Housing Credit) and Housing Bonds to stabilize and improve pricing in those markets and refrain from selling such investments in a manner that will have destabilizing effects on those markets.

It is critical that secondary market entities be given broad authority and flexibility, within prudent standards of safety and soundness, to practice innovation in carrying out a wide array of affordable housing and underserved market strategies, which may include subsidizing lending for these purposes. These entities must be able to respond quickly and nimbly to changing housing markets and conditions and to take measured risks.

Finally, NCSHA recommends that HFAs play a key role in the strong governance of these secondary market entities. We suggest HFAs be at the regulatory table, not only to help ensure that these entities meet their affordable housing mandates, but also to inform those efforts and evaluate their success.

Why Should HFAs Be the GSEs' Preferred Affordable Housing Partner?

State HFAs play an indispensable role in the provision of affordable housing in our country today. They bring statewide perspective and focus, along with a deep understanding of the needs of their local markets. They are in an unparalleled position to ensure that resources are integrated with other public investments in our physical, economic, and human infrastructure.

HFAs combine tough business acumen with a mission-oriented public purpose to harness private capital to provide affordable housing. They possess sophisticated financing, underwriting, and asset management capacity and a multi-decade record of responsibility, effectiveness, accountability, and success in administering tens of billions of dollars of federal housing assistance.

In strong and weak economies, HFAs have been a constant, reliable source of flexible, affordable mortgage money for lower-income first-time home buyers, anchoring the first-time home buyer market. 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, offering largely 30-year, fixed-rate mortgages. Through a combination of low-cost financing, prudent underwriting, home buyer counseling, down payment assistance, and aggressive servicing, HFAs have proven over many decades that homeownership is not only possible for lower-income families, it is sustainable.

Using single-family Housing Bonds or, as they are commonly known, Mortgage Revenue Bonds (MRBs), HFAs have made nearly 3 million families first-time homeowners. They add another 100,000 families to their ranks each year.

Recognizing that not everyone is ready for or interested in homeownership, HFAs and their partners have produced more than 2 million affordable rental homes with equity provided by the Housing Credit. Nearly half of these homes are multifamily Housing Bond-financed. HFAs have financed nearly another 1 million affordable rental homes with Housing Bonds alone. Using Housing Bonds and the Credit, HFAs add another 150,000 homes to our country's affordable rental housing inventory each year.

HFAs engage in a broad range of other affordable housing activities, including home rehabilitation and weatherization, rental housing preservation, tenant rental assistance, housing for the elderly and persons with special needs, and homelessness assistance.

What Are State HFAs?

HFAs are state-chartered housing agencies that operate in every state, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. Though they vary widely in their characteristics, including their relationship to state government, HFAs have in common their public-purpose mission to provide affordable housing to the people of their states who need it.

What Is NCSHA?

NCSHA is a national nonprofit, nonpartisan Washington, DC-based association that represents the interests of state HFAs before the Administration and the Congress. In addition to its policy and advocacy work, NCSHA provides HFAs education and training and facilitates best practice exchange among them.