NCSHA
National Council *of*
State Housing Agencies

Statement by NCSHA
To the U.S. House of Representatives Committee on Financial Services
In Connection with Its Hearing
"A Failure to Act: How a Decade Without GSE Reform Has Once Again Put Taxpayers at Risk"
September 6, 2018

The National Council of State Housing Agencies (NCSHA) appreciates this opportunity to submit a statement in connection with the above-referenced hearing. NCSHA represents the nation's state housing finance agencies (HFAs).

During the decade in which Fannie Mae and Freddie Mac (collectively, "the GSEs") have been in federal conservatorship, state HFAs have played an important role in the gradual strengthening of the housing market, providing $107 billion in financing for more than 743,000 affordable home mortgage loans for low- and moderate-income (LMI) households. The median household income of an HFA borrower during this period was under $43,000.[1]

Fannie Mae-commissioned research released earlier this year found that state HFA loans to LMI households were 20 percent less likely to default and 30 percent less likely to experience foreclosure than loans from other sources to LMI borrowers. The report found: "Not only are HFAs more likely to require full documentation and careful underwriting, they also serve as a third-party monitor on the partner lenders originating loans through the state program, creating an additional incentive for careful screening by the lender."[2]

The GSEs have been important partners to state HFAs since they have been in conservatorship. In 2011, NCSHA and our members worked with Federal Housing Finance Agency Acting Director Ed DeMarco to develop special lending partnerships between the agencies and the GSEs. The HFA programs were, until quite recently, the only products with a loan-to-value ratio above 95 percent that FHFA authorized the GSEs to support.

As of the fourth quarter of 2017, more than 40 HFAs were delivering financing through the Fannie Mae product, which has generated $25 billion in lending to fund more than 184,000 home mortgages. HFA activities with Freddie Mac are at a decidedly smaller scale but growing.

One example of effective HFA–GSE partnerships is the collaboration between Fannie Mae and the Illinois Housing Development Authority, which are working together to stabilize neighborhoods still struggling with high numbers of properties with "underwater" mortgages. The "I-Refi" program helps eligible homeowners reduce the balances owed on their mortgages and refinance into new affordable loans, resulting in average monthly savings of $365.

[1] Data from NCSHA's Annual State HFA Factbook, 2008 – 2016.

[2] "Low Income Homeownership and the Role of State Subsidies: A Comparative Analysis of Mortgage Outcomes," Moulton, Record, and Hembre, 2018, Fannie Mae.

HFAs have identified other opportunities for collaboration with the GSEs, building on their successes to date and on FHFA's stated understanding of the strengths of the state HFA delivery system in the agency's 2014 strategic plan, which noted: "HFAs have historically provided access to credit and lower down payment lending for lower- and moderate-income families and have proven, strong performance records."[3]

Unfortunately, no new state HFA–GSE partnerships have materialized since 2011, despite demonstrable needs in the marketplace. This is a major missed opportunity because state HFAs can do more to help the GSEs meet their statutory affordable housing goals and duty-to-serve requirements. We believe this problem can be fixed with clear guidance to the GSEs from FHFA.

Also during the conservatorship period, state HFAs have begun to utilize resources generated through the Housing Trust Fund and Capital Magnet Fund. Thirty-nine HFAs administer the former in their states, and five HFAs have won competitive awards through the latter. While these two programs are relatively small and new, they have been useful, and we commend FHFA, along with HUD and Treasury, for getting them off the ground.

An example of their impact is the Colorado Housing and Finance Authority's recent announcement of a new statewide pool of capital to support the development and preservation of affordable rental housing, backed by Capital Magnet Fund dollars. The fund will provide low-cost financing for housing for approximately 725 Colorado households in both rural and urban communities.

The Housing Trust Fund and the Capital Magnet Fund are important programs and should continue. In fact, we need more capital for affordable for-sale and rental housing.

As Congress and the Administration contemplate reforms to the housing finance system, they should ensure that any legislative, regulatory, or administrative changes to the current GSE framework help make capital more available and affordable in a responsible manner to all the households and communities that need it, including through dedicated funding for the Housing Trust Fund and Capital Magnet Fund. They should also establish a central role in that system for state HFAs to assist in the financing of affordable housing for those households and communities.

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[3] "The 2014 Strategic Plan for the Conservatorship of Fannie Mae and Freddie Mac," May 13, 2014.