Housing Finance Reform FAQ

Why is housing finance reform important?

A strong secondary market is an essential component of our country's housing finance system that must be preserved and fortified to ensure the widespread availability of and ready access to mortgage capital. 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.

What are NCSHA's priorities in housing finance reform?

NCSHA calls on the Administration and Congress to seize the opportunity that housing finance reform presents to design a strong, federally-backed secondary mortgage market system that supports liquidity and affordable housing in all markets.

To meet this objective, NCSHA urges lawmakers to:

- Require of any new housing finance system a strong commitment to ensuring the availability of affordable housing options for all consumers and communities that, at minimum, matches the level of support for affordable housing provided under the current system.
- Maintain in housing finance reform a dedicated funding stream for the Housing Trust Fund and Capital Magnet Fund.
- Enlist state Housing Finance Agencies (HFAs) to administer and distribute funding collected through any "Market Access Fund" established by housing finance reform to finance affordable homeownership and rental lending.

Why should the new housing finance system be expected to support affordable housing?

Nearly every mainstream housing finance reform proposal includes federal government backing for entities involved in the secondary housing market, and such backing is widely expected to be part of any housing finance system Congress puts into place. Backing from taxpayers should carry with it a strong public duty for these entities to provide access to credit for working families and affordable housing options in all communities, not just high-end communities, so that the system serves all Americans.

Under the current system, Fannie Mae and Freddie Mac fulfill their public purposes through a variety of mandates, including the firms' public missions, the Affordable Housing Goals, Duty-to-Serve Underserved Market plans, and contributions to the Housing Trust Fund and Capital Magnet Fund. These have prompted Fannie and Freddie to make substantial and needed investments in affordable housing. Any new reform should ensure that affordable housing obligations on secondary market entities provide benefits at least comparable to the obligations currently placed on Fannie Mae and Freddie Mac.

Aren't federal housing programs enough to support affordable housing without a commitment from the secondary market system?

NCSHA strongly supports federal housing programs, including the Low Income Housing Tax Credit, HOME, Section 8, and the Housing Trust Fund, many of which HFAs administer in their states. However, while the support these programs provide for affordable housing is substantial, it is still wholly inadequate to fully address our nation's critical shortage of affordable housing. Fully addressing our nation's housing needs will require a housing finance system with a deep-seated commitment to supporting financing for affordable housing that engages state HFAs as preferred partners.

Didn't affordable housing efforts cause Fannie Mae and Freddie Mac's financial troubles?

No. While Fannie Mae and Freddie Mac purchased some subprime loans, they also made sound affordable housing investments, including those in partnership with HFAs, that have performed well and helped address unmet housing needs.

Why should the housing finance system continue to fund the Housing Trust Fund and Capital Magnet Fund?

Both the Housing Trust Fund and Capital Magnet Fund are unique, well-targeted programs that help finance needed affordable housing projects. The Housing Trust Fund was established to develop housing options for those populations with the most acute housing needs, including people with very low incomes and those experiencing homelessness. Through 2019, the fund has distributed $907 million to HFAs and other state agencies. HUD anticipates distributing $301 million for HTF in 2020.

The Capital Magnet Fund provides competitive grants for state HFAs, Community Development Financial Institutions, and nonprofits to finance innovative affordable housing and community development programs. HFAs have received awards to help finance or preserve affordable rental housing and to provide down payment assistance to help working families purchase their first homes.

Both programs are currently funded through annual contributions Fannie Mae and Freddie Mac pay based on the volume of new loans they guarantee each year. Financing these initiatives through the housing finance system, rather than the congressional appropriations process, ensures a consistent source of funding. It also allows HFAs and other entities that administer the Housing Trust Fund to better plan their activities. Preserving this steady funding mechanism is vital to the success of both programs.

What is the Market Access Fund?

An increasing number of housing finance reform plans introduced in Congress would establish a Market Access Fund, to be funded through secondary housing finance market entities that purchase government insurance or guarantees on their mortgage backed securities. While details vary, the general idea behind the Market Access Fund would be to support affordable homeownership and rental housing through grants, loans, and credit enhancements. An analysis from the Urban Institute's Housing Finance Policy Center estimates that, if funded by a simple fee of .1 percent of the volume of mortgages receiving federal guarantees, the fund could provide $5.5 billion in assistance each year.

For the Market Access Fund to make a real difference in addressing the affordable housing shortage, it will need robust and consistent funding. HFAs and fund recipients should also be given maximum flexibility so that they can target the funding toward their most pressing needs.

Why should HFAs administer the Market Access Fund?

HFAs have proven over many decades that affordable housing lending done right is good lending. HFAs do it right in the case of first-time home buyer lending through a time-tested combination of low-cost financing; traditional fixed-rate, long-term products; flexible, but prudent, underwriting with careful credit evaluation; diligent loan documentation and income verification; down payment and closing cost assistance; homeownership counseling; and proactive servicing. They employ the same kind of discipline in their multifamily housing underwriting and asset management.

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.

The critical role HFAs play in responsibly financing affordable housing opportunities has been recognized by the Federal Housing Finance Agency (FHFA). FHFA's five-year strategic plan for regulating Fannie Mae and Freddie Mac instructs both firms to increase their partnerships with state HFAs.