NCSHA

Testimony on the Federal Housing Finance Reform Act of 2007, H.R. 1427,

Submitted to the

House Committee on Financial Services

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on behalf of the National Council of State Housing Agencies

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Chairman Frank, Ranking Member Bachus, and members of the Committee, I am Tom Gleason, executive director of MassHousing and a member of the board of directors of the National Council of State Housing Agencies (NCSHA). I am also a co-chair of NCSHA's Fannie Mae Single-Family Product Development Group, which has worked with Fannie Mae over the last 18 months to develop and implement special Fannie Mae mortgage products to help HFAs reach more homebuyers.

Thank you for this opportunity to testify on behalf of NCSHA in support of the Federal Housing Finance Reform Act of 2007, legislation to strengthen the regulatory oversight of the housing GSEs, ensure their safety and soundness, and expand their role in providing affordable housing to America's lower-income families. NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

State HFAs allocate the Low Income Housing Tax Credit (Housing Credit) and issue tax-exempt private activity bonds (Housing Bonds) to finance apartments for low-income renters and low-cost mortgages for lower-income first-time home buyers in nearly every state. They administer HOME Investment Partnerships (HOME) funding in 42 states to provide both homeownership and rental housing opportunities for low-income families. State HFAs operate the Housing Choice Voucher program in 21 states and administer Section 8 project-based contracts in 42 states.

State HFAs and the GSEs partner in a number of ways. The GSEs purchase Housing Credits and HFA-issued taxable and tax-exempt Housing Bonds. They also guarantee HFA bonds, securitize and purchase HFA-financed mortgages, and provide HFAs loan underwriting assistance.

The GSEs play an indispensable role in the nation's affordable housing delivery system. They supply critical liquidity and stability in the mortgage market.

NCSHA supports a regulatory system that allows the GSEs to continue to play this vital role. We caution the Committee against allowing the regulator to impose capital standards and portfolio restrictions that may cause the GSEs to curtail their affordable housing activities, unless such steps are necessary to ensure the GSEs' safety and soundness.

State HFAs have a large stake in the GSEs' ability to continue their affordable housing activities and a profound desire to expand them. While preserving the GSEs' safety and soundness is important, Congress should also preserve and strengthen Fannie Mae and Freddie Mac's affordable housing mission. Though their affordable housing contributions are significant, Fannie Mae and Freddie Mac can and should do more.

Establish a GSE-Financed, State-Administered Affordable Housing Fund

NCSHA strongly supports requiring Fannie Mae and Freddie Mac to commit significant resources annually to an affordable housing grant fund. The GSEs enjoy substantial financial benefits from their federal charters. In exchange, they have a responsibility to devote some of these benefits to increasing affordable housing opportunity. With unmet affordable housing needs so great, opportunities for increased federal appropriations so limited, and the GSEs' responsibility to support affordable housing so clear, a modest assessment on their resources in return for the advantages their federal charters convey is appropriate and timely.

<u>State HFA Administration</u>

NCSHA supports the bill's provision that the administration of the affordable housing grant fund be entrusted to the states. We recommend the Committee specifically designate state HFAs to administer the fund, as they are best positioned to make maximum use of these new resources for the many reasons described below.

State HFAs have a proven system and strong track record of effectively and fairly allocating housing resources. States are the only point where all federal and state housing resources—Housing Bonds, Housing Credits, HOME funds, vouchers, Federal Home Loan Bank advances, FHA insurance, and state-provided funds and credits—can be accessed in one place and brought to bear on housing needs. Through their existing distribution structures, state HFAs would use the new funds to leverage their existing resources, extend their reach, and serve as a one-stop shop for addressing housing needs.

State HFAs are in the best position to determine and allocate the grant funds to their most pressing housing needs, wherever they exist in each state, in amounts sufficient to make a difference. Housing needs in cities, suburbs, and rural areas do not often exist in isolation from one another. Moreover, housing needs, employment challenges, transportation burdens, health care availability, human services demands, and other neighborhood development requirements flood across city and county boundaries, sometimes across broad areas of a state. These interrelated needs cannot be addressed as fairly, effectively, or efficiently by a national entity or by a proliferation of individual subdivisions acting alone as by statewide planning and administration.

State HFAs have the ability to bring together state agencies and resources in ways the federal government and local communities cannot. For example, state HFAs have partnered with welfare agencies to use Temporary Assistance to Needy Families funds to provide housing assistance to families attempting to make the transition from welfare to work. They have teamed up with state health and human services agencies to obtain Medicaid waivers to cover the cost of services in HFA-financed assisted living. They work with state mental health agencies to provide quality housing linked to supportive services for people with mental illness and disabilities.

State HFAs also successfully partner with local governments, nonprofits, the private sector, resident and community groups, and service providers to address the diverse housing challenges they confront. Through comprehensive and coordinated state, regional, and local planning, state HFAs can assure that housing is developed where it is most needed and in sustainable communities with access to jobs, transportation, schools, health care, and other services. This is critically important because providing affordable housing today means much more than providing shelter. Families and those with special needs require services and proximity to economic opportunity to have the best possible chance to achieve self-sufficiency and a stake in their communities.

The funds potentially available for this grant program will be too scarce to be divided among more than the 50 states, if relative needs in all parts of each state are to be considered and prioritized adequately, and the funds marshaled to meet them. Dividing the grant funds into more than 50 parts would dilute those funds in many places to amounts too little to be effective or meaningful.

A single federal entity, alternatively, will not have the awareness of and perspective on all the various needs within each state to address them fairly. State HFAs are uniquely positioned. They are close to real local issues and housing needs, but have the perspective to bring a state and regional focus to problems that cannot be solved within individual municipal boundaries. States are in an unparalleled position to ensure that funding is applied where it is most needed and integrated with other public investments in our physical, economic, and human infrastructure.

Only state HFAs have the capacity in every state to administer sophisticated multifamily financing. State HFAs possess sophisticated finance, underwriting, and asset management skills, and a multi-decade record of responsibility, effectiveness, accountability, and success in administering tens of billions of dollars of housing assistance. They are investment grade rated.

State HFA administration will minimize oversight bureaucracy. The new regulator's oversight burden will grow as the number of grantees increases. The regulator will need a much larger staff to oversee programs spread among hundreds of states and municipalities than it will for programs concentrated among only 50 entities. In addition, the regulator will be able to use compliance reports and reviews from other HFA-administered programs to streamline monitoring of HFA affordable housing fund administration.

In Massachusetts, we would put these new, flexible affordable housing fund resources to immediate use with the Housing Credit, Bonds, HOME funds, and state housing trust funding to produce more rental housing affordable to very low- and extremely low-income people, populations they struggle to serve on their own. We could produce many more outcomes like the 14-apartment mixed-use building we recently developed in Boston's South End for formerly homeless families enrolled in job training and the 396-apartment HOPE VI redevelopment project we recently completed in East Boston, recognized by *Affordable Housing Finance* magazine as the Number One Affordable Housing Development in the country in 2006.

Income Targeting

NCSHA supports the bill's requirement that funds be targeted to very low- and extremely low-income families. Of the 16 million families with severe housing problems, 80 percent are very low-income, and nearly 60 percent have extremely low incomes. According to recent data from the Census Bureau's American Community Survey, less than 50 housing units are affordable and available for every 100 extremely low-income families in need of affordable rental housing.

While states consistently use the Housing Credit, Bonds, and other resources to serve families earning considerably less than the programs' income limits allow, MassHousing and state HFAs across the country are finding it increasingly difficult to do so. There simply are not enough subsidies to combine with the Housing Credit and other housing production resources to meet the large and growing affordable housing need among very low- and extremely low-income families.

State Allocation Plans

NCSHA supports the flexibility the bill provides states to determine in consultation with the public and their housing partners how to best utilize the affordable housing grant funds to address their most pressing housing challenges. We endorse the allocation plan process for identifying and prioritizing housing needs and setting forth application requirements and selection criteria. This process has worked effectively in the Housing Credit program, bringing a high degree of program transparency and flexibility to respond to changing housing needs, market conditions, and policy goals.

Eligible Activities

NCSHA appreciates the bill's broadly defined eligible activities. We recommend the bill provide state HFAs additional flexibility to fund project-based rental assistance, operating subsidies, and project reserves.

Capital subsidies alone often are not enough to make rental housing affordable to very low- and extremely low-income families. Even if those subsidies are sufficient to cover a property's development cost, the rent necessary to pay operating costs is often still more than very low- and extremely low-income households can afford.

Vouchers sometimes help cover these operating costs. However, the voucher program is already hopelessly oversubscribed, and Congress has not funded any new vouchers since 2002. State HFAs and other Public Housing Authorities struggle to renew existing vouchers and are hard pressed to make scarce vouchers available to support new production. That is why NCSHA called for a new state-administered project-based rental assistance program in our recent voucher reform testimony before this Committee's Housing Subcommittee.

We recognize that allowing states to use the new affordable housing grant fund to support properties' operating costs could sap its production strength. Given the limited size of the new fund and the desire to ensure it produce as many new units as possible, NCSHA again urges the Committee to allocate new project-based rental assistance to state HFAs to combine with affordable housing fund grants and the other production resources. At a minimum, however, we urge the Committee to make project-based rental and operating assistance eligible fund activities.

Fund Contribution Suspension

NCSHA understands the regulator may need to suspend GSE payments to the fund when those payments threaten the GSEs' financial stability. The GSEs' safety and soundness must come first. We encourage the Committee, however, to authorize the regulator to reduce rather than suspend payments if the GSEs' financial condition can support partial payments. In addition, we recommend the regulator be authorized to recover lost contributions in future years, if the GSEs' financial recovery makes that possible.

Strengthen the GSE Affordable Housing Goals

Income Targeting and Enforcement

NCSHA believes the GSEs should be required to meet strong and aggressive affordable housing goals. We support the bill's deeper income targeting requirements for the single-family low-income, low-income area, and very low-income goals. We also endorse the bill's establishment of a statutory multifamily special affordable housing goal with subgoals for very low-income families, low-income families, and mortgages on Housing Credit properties. These more focused goals will help direct more housing help to those who need it most.

We also support the bill's establishment of a GSE "duty to serve" underserved markets and specifically manufactured housing, preservation, and rural area markets. We also agree with the authority the bill provides the regulator to establish additional requirements for small and rural mortgage purchases.

NCSHA supports extending the regulator's enforcement authority to subgoals, as the bill provides. Enforcement authority is necessary to make sure the goals are realized in GSE action and to provide for proper oversight and accountability.

Housing Credit and Bond Investments

NCSHA urges the Committee to encourage continued and expanded GSE investment in Housing Credits and Bonds by awarding the GSEs goal credit for such purchases. The GSEs' active role in these markets has driven up Credit and Bond pricing, ultimately lowering housing costs for renters and homebuyers. Giving the GSEs a nonfinancial incentive to invest in Credits and Bonds will help sustain and potentially increase their appetite for these investments.

We thank the Chairman for including the bill provision awarding multifamily special affordable housing goal credit to the GSEs for purchasing HFA-issued non-investment grade multifamily bonds and guaranteeing HFA-issued multifamily bonds. We recommend the Committee expand this provision to give the GSEs credit for their purchases and guarantees of any HFA-issued bonds that finance properties otherwise meeting any of the multifamily housing goals. We further suggest the Committee give the GSEs credit for purchases and guarantees of any HFA-issued bonds that finance single-family mortgages that otherwise meet any of the single-family housing goals.

Increase the GSE Conforming Loan Limit in High-Cost Areas

NCSHA supports adjusting the GSEs' conforming loan limit to increase homebuyer access to GSE financing cost advantages in high-cost areas. In some areas of the country, including some areas of Massachusetts, the GSE conforming loan limit prevents Fannie Mae and Freddie Mac from purchasing some mortgage loans because it is less than the median home price.

Allowing the GSE conforming loan limit to rise to the local median home price or 150 percent of the current conforming loan limit, whichever is lower, will help many families in high-cost areas across the country achieve the American dream of homeownership. In Massachusetts, the bill's new limits would benefit approximately 17 percent of our cities and towns.

Allow Fannie Mae and Freddie Mac to Develop and Launch New Products Expeditiously

NCSHA supports giving the GSEs as much flexibility as possible to develop and launch new affordable housing products. The GSEs' product innovation and technological breakthroughs contribute significantly to their success in meeting their affordable housing mission. The GSEs' ability to offer new products quickly to address urgent or temporary market inefficiencies and financing gaps is vital.

We are concerned the bill's product approval requirements may be more cumbersome than necessary to preserve the regulator's ability to ensure the GSEs' safety and soundness and charter fidelity. We fear the formal public notice and regulator review periods for new products may stifle innovation.

We are also concerned the regulator's authority to determine that any new activity, service, undertaking, or offering consists of, relates to, or involves a product—and thereby necessitates the new product approval process—is so broad that the GSEs will be unable to respond quickly to market changes and invites micromanagement.