Statement of
Mary Kenney, Executive Director, Illinois Housing Development Authority,
On Behalf of
The National Council of State Housing Agencies
Before the
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
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Thank you Chairwoman Biggert, Ranking Member Gutierrez, and members of the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity, for convening this hearing on the Federal Housing Administration's (FHA) multifamily mortgage insurance programs. I appreciate the opportunity to testify in support of strengthening FHA's affordable multifamily lending capacity by authorizing Ginnie Mae to securitize FHA-insured multifamily loans under the FHA-Housing Finance Agency (HFA) Risk-Sharing program. Enhancing this program's proven ability to address our nation's growing affordable rental housing need at no cost and with minimal taxpayer risk is a sound, prudent course of action at this time, when such approaches are desperately needed.

As you may recall, the full Financial Services Committee included this authority in the Housing Preservation and Tenant Protection Act, H.R. 4868, which it reported in 2010. HUD, FHA, Ginnie Mae, and several affordable housing industry groups all support the proposal, which is contained in the Administration's FY 2013 Budget.

I am Mary Kenney, the executive director of the Illinois Housing Development Authority (IHDA), Illinois' state HFA. I am testifying on behalf of the National Council of State Housing Agencies. NCSHA is a national nonprofit, nonpartisan association that represents the interests of state HFAs before Congress and the Administration. NCSHA's members are the HFAs of the 50 states, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands.

State HFAs are widely known for our safe and sound first-time homebuyer lending programs, which have provided a reliable source of affordable mortgage money for working families over many decades in strong and weak economies. We also provide low-cost multifamily financing to facilitate the development of affordable rental homes.

HFAs administer several key federal housing programs, a number of which are essential to our affordable rental home production efforts, including tax-exempt Housing Bonds, the Low Income Housing Tax Credit (Housing Credit), HOME, and the FHA-HFA Multifamily Risk-Sharing program. We thank you for your long-standing, bipartisan support of these programs and urge you to seize every opportunity to preserve and strengthen them, especially as Congress strives to further reduce the federal deficit and reform our housing finance and tax systems.

Addressing the Growing Need for Rental Housing

A strong arsenal of financing tools is essential to combat the shortage of affordable rental housing in this country, which is becoming even more severe as the full impact of the prolonged housing and economic crises is felt. Harvard University's Joint Center for Housing Studies' 2011 report, *America's Rental Housing*, found that in recent years, housing affordability has deteriorated as economic difficulties have taken a toll on household incomes, while doing little to reduce household housing outlays. Some 10.1 million renters, more than one in four, now spend over half their incomes on housing. The number of severely cost-burdened renters grew from 20.7 percent in 2001 to 26.1 percent in 2009. This shortage will likely worsen as more people move into the rental market after experiencing foreclosure.

According to the Joint Center, the shrinking affordable housing stock, falling incomes, and increased competition from higher-income renters have widened the gap between the number of very low-income renters and the number of affordable, adequate, and available rental units. In 2003, 16.3 million very low-income renters competed for 12 million affordable and adequate rentals not occupied by higher-income households. By 2009, the number of these renters reached 18 million while the number of units dipped to 11.6 million, pushing the supply gap to 6.4 million units.

To address this problem, the Joint Center asserts that "creative approaches will be necessary to close the gap between what low-income renters can afford to pay and the rents developers need to provide decent housing." I am here to talk to you about one such approach.

Authorize Ginnie Mae to Securitize FHA-HFA Risk-Sharing Loans

Congress has the opportunity now to make greater use of a sound and proven housing program and delivery system to support the development of affordable rental homes by allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans. In granting this authority, Congress would:

- Make the highly successful FHA-HFA Risk-Sharing program even more effective, efficient, and productive;
- Achieve greater affordability within FHA-financed rental housing;
- Increase FHA multifamily productivity while reducing FHA's workload and risk;
- Further utilize the well-established, state-based HFA delivery system; and
- Generate revenue for the federal government.

Build on the Highly Successful FHA-HFA Risk-Sharing Program

Established in 1992 to increase and speed up FHA's multifamily mortgage production, the FHA-HFA Risk-Sharing program has been very successful, with 26 state HFAs financing nearly 1,000 loans, totaling more than $5 billion in principal and supporting more than 101,000 affordable rental homes. This activity has generated jobs, increased tax revenue, and promoted economic growth.

In Illinois, IHDA has financed 56 properties since 1994, providing more than 5,800 affordable homes and creating an estimated 8,500 jobs statewide. IHDA's investment in these projects totals $411 million, leveraging an additional $112.5 million. Of these 56 developments, 25 house a total of 3,013 low-income families, while the remaining 31 developments contain 2,789 rental homes serving the elderly. Importantly, the loan default rate has been very low—only one of the 56 loans has defaulted.

The FHA-HFA Risk-Sharing program allows state HFAs that meet rigorous financial standards to underwrite FHA multifamily loans in return for sharing the risk of losses on those loans. To qualify to participate in the program, an HFA must have a "top-tier" rating by a nationally recognized rating agency or otherwise demonstrate its capacity as a sound and experienced agency based on its track record in financing multifamily housing, fund balances, administrative capabilities, investment policies, internal controls, financial management, portfolio quality, and state and local support. The HFA must have at least five years of experience in multifamily underwriting. It also must maintain adequate reserves, hold a top-tier rating, or establish a dedicated account acceptable to HUD to demonstrate its ability to fulfill its financial obligations to FHA.

Under the program, FHA provides full insurance on the loans, and HFAs agree to accept up to 90 percent of the risk of losses on them. The more risk HFAs assume, the more underwriting flexibility FHA permits them. In the event of a default, FHA and the HFA apportion the loss according to the risk-sharing agreement they have made.

The program's loan default rates are very low. Premium revenue has exceeded total claims, generating net revenue for the federal government over the life of the program. A HUD FY 2011 report dated November 1, 2011, states, "[T]he risk sharing portfolio performed well during the fiscal year with no major defaults or claims on either the HFA or GSE loans."

Seize this Opportunity to Make the FHA-HFA Risk-Sharing Program Even More Productive and Efficient

Permitting Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would reduce the cost of financing rental housing developments, making it possible to achieve lower rents and reach even lower income tenants. If Ginnie Mae were to securitize FHA-HFA Risk-Sharing loans, HFAs predict the interest rate on the underlying mortgages could be reduced by as much as 200 basis points, or 2 percent. This rate reduction would lower rents and potentially reduce the need for and cost of other federal housing subsidies.

Most FHA-insured multifamily loans are packaged into Ginnie Mae securities issued by lenders. Ginnie Mae guarantees the timely payment of interest and principal, increasing investor interest and driving down the interest rates on the securities and the underlying loans.

FHA-HFA Risk-Sharing loans, however, cannot be securitized through Ginnie Mae, so they have historically been financed through other means, including tax-exempt Housing Bonds or GSE participation investments. Ginnie Mae securitization of FHA-HFA Risk-Sharing loans would increase liquidity and reduce financing costs, making more loans possible for the development and preservation of affordable rental housing. This housing activity would in turn stimulate local economies by creating jobs, increasing tax revenue, and expanding investment.

The FHA-HFA Risk-Sharing program increases efficiency by delegating processing, underwriting, and servicing to state HFAs, reducing the workload on HUD staff and leading to faster loan processing than is common under the traditional FHA insurance programs. Strengthening the FHA-HFA Risk-Sharing program by allowing Ginnie Mae securitization will multiply these advantages and amplify the Risk-Sharing program's benefits.

Achieve Greater Affordability in FHA-Financed Rental Housing

Unlike virtually all other FHA multifamily loan insurance programs, all developments financed under the FHA-HFA Risk-Sharing program must qualify as affordable housing under the same requirements that apply to the Housing Credit and Housing Bond programs. This means that:

- 20 percent of the development's units must be both rent-restricted and occupied by households with incomes of 50 percent or less of the HUD-determined area median income (AMI); or

- 40 percent of the units must be both rent-restricted and occupied by families whose income is 60 percent or less of AMI.

A rent-restricted apartment's rent cannot exceed 30 percent of the imputed income based on the income limit for that apartment, i.e., the 50 percent and 60 percent of AMI limits mentioned above. HFAs are responsible for determining rent and income limits, including associated expenses, such as utilities.

In contrast, virtually all other major FHA multifamily mortgage insurance programs do not carry any rent restrictions or income limit affordability requirements. Even HUD, in its report summarizing Risk-Sharing program activity in FY 2011 acknowledged that, "…the risk-sharing program is a bigger contributor to the achievement of the Department's affordable housing goals than are the FHA full insurance programs."

Limited But Important Expansion of Ginnie Mae Activity

Enacting this authority would not expand significantly Ginnie Mae's role in affordable housing. Ginnie Mae already securitizes FHA-insured loans. Congress provided $500 billion in mortgage-backed securities guarantee authority to Ginnie Mae in FY 2012, and Ginnie Mae is requesting the same amount for FY 2013.

HUD's FY 2013 Budget estimates total HFA Risk-Sharing loan activity of $233 million in FY 2012, 2.1 percent of all expected FY 2012 FHA multifamily loan activity and less than one-half of 1 percent of all estimated Ginnie Mae activity. Even if allowing Ginnie Mae securitization of FHA-HFA Risk-Sharing loans doubled the program's volume, it would still total less than 1 percent of all Ginnie Mae activity.

Based on a recent survey NCSHA conducted of all HFAs, allowing Ginnie Mae securitization would increase total program volume somewhat. Though this increase is likely to be small, it would represent vital affordable housing lending that would probably not be conducted without federal support.

Reduce Taxpayer Risk

Allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would in fact reduce the risk to and involvement of the federal government in affordable housing by allowing state HFAs, which are best suited to meet the needs of their communities with this innovative tool, to take on a portion of that risk and underwrite the loans. In addition, FHA-HFA Risk-Sharing loans securitized by Ginnie Mae are less likely to be financed with tax-exempt bonds and may replace some loans that would have been fully insured by FHA, reducing taxpayer risk by transferring some of that risk to HFAs.

Generate Revenue for the Federal Government

The Congressional Budget Office (CBO) estimates that allowing Ginnie Mae to securitize HFA Risk-Sharing loans would result in $20 million in mandatory savings over 10 years ($2 million annually). The Administration's FY 2013 Budget documents also show that the Risk-Sharing program is a money-maker for the federal government.

Allowing Ginnie Mae Securitization of Risk-Sharing Loans is a No-Cost, Low-Risk, Prudent, Helpful Proposal

In conclusion, the FHA-HFA Risk-Sharing program has been very successful since its inception. Given the program's proven track record, lifting the prohibition on Ginnie Mae securitization is a prudent decision that would help meet our nation's affordable housing challenges with minimal risk and no additional cost to the federal government.

Though NCSHA also supports the Administration-proposed small multifamily loan risk-sharing proposal, we do not view it as a substitute for our proposed amendment to the FHA-HFA Risk-Sharing program. Notably, however, the Administration's small buildings proposal also calls for Ginnie Mae securitization, showing the value of this essential element.

Thank you for the opportunity to testify today. Please let me know if NCSHA or IHDA can provide any additional information.