



Testimony on Housing Finance

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, thank you for the opportunity to testify today on the future of our country's housing finance system and particularly, its Government-Sponsored Enterprises (GSEs). I am Tom Gleason, executive director of MassHousing, the Housing Finance Agency (HFA) of the state of Massachusetts. I am testifying on behalf of the National Council of State Housing Agencies (NCSHA), which represents the HFAs of the 50 states, 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 our public-purpose mission to provide affordable housing to the people of our states who need it.

NCSHA calls on Congress and the Administration to seize the opportunity of GSE reform to establish a powerful commitment to affordable housing within any future housing GSEs. 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.

Before I elaborate on these points, I want to express our appreciation to Congress and the Administration for making it possible for HFAs to put housing to work for people and the economy. By providing us housing recovery resources and by removing barriers the financial crisis created to the deployment of our existing resources, you opened the door for HFAs to finance hundreds of thousands of affordable, sustainable homes for America's working families, while generating jobs and tax revenue for the economy.

Mr. Chairman, we especially want to thank you for recognizing that we could not afford to have the Low Income Housing Tax Credit (Housing Credit) and tax-exempt Housing Bond programs sidelined with affordable housing need so great and the housing market so fragile. We are grateful for the extraordinary efforts you made to reinvigorate and expand these programs with the Tax Credit Assistance Program (TCAP), the Tax Credit Exchange Program, new Housing Bond authority, and the Administration's HFA Bond Purchase Initiative.

We appreciate and join you in the efforts you are now making to continue and enlarge the Exchange Program to include 4 percent and disaster Credits, to extend the availability of the new Housing Bond authority, and to permit the continuation of the Administration's HFA Initiative should that prove necessary to keep affordable mortgage money flowing through HFAs. These steps are critical to fueling first-time home buyer lending, which will in turn ignite the trade-up market, and to spurring affordable rental home production.

GSE Reform and the HFA Opportunity

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.

We feel strongly, however, that federal support 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 relationship of any future housing GSEs with the federal government, the benefits derived from that relationship, and the public-purpose responsibilities those benefits compel must be clearly defined and understood. GSEs must be held accountable for achieving their public purposes and further federal support must be conditioned upon their success in doing so.

We understand that some say future GSEs 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 us, 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 our loan portfolios.

HFAs have proven over many decades that affordable housing lending done right is good lending. We 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.

Congress and the Administration recognized this when you entrusted to HFAs billions in housing recovery resources, on top of the substantial resources you already commit to us annually to create affordable housing opportunity in this country. You understood that 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. You knew we had not and would not engage in subprime or other risky lending.

NCSHA urges you to again turn to the time-tested and consistently high-performing HFA delivery system to extend the reach of any future GSEs 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 us 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 future GSEs to wholly integrate 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 GSE capitalization of the Housing Trust Fund is essential, that alone should not fulfill the GSEs' public-purpose responsibilities. They must fully devote themselves to bringing about affordable and sustainable housing outcomes, especially in areas where market forces fail.

Future GSEs 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, loan guarantees, and Housing Bond and Credit purchases, all with reasonable rates and terms.

It is critical that GSEs 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. GSEs 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 GSE governance. We suggest HFAs be at the regulatory table, along with other representatives of the affordable housing community, not only to help ensure that the GSEs meet their affordable housing mandates, but also to inform those efforts and evaluate their success.

Thank you for soliciting NCSHA's views on future GSEs and the safe and sound affordable housing outcomes they could accomplish in partnership with HFAs. We are eager to assist the Committee as you move forward with this important work.