NCSHA

May 24, 2011

The Honorable Judy Biggert, Chairwoman
The Honorable Luis Gutierrez, Ranking Member
Subcommittee on Insurance, Housing, and Community Opportunity
House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Biggert and Ranking Member Gutierrez,

As you consider the future role of the Federal Housing Administration (FHA), Rural Housing Service (RHS), and Government National Mortgage Association (Ginnie Mae) in the single-family and multifamily mortgage markets, the National Council of State Housing Agencies (NCSHA) urges you to support a proposal that would enhance the efforts of state Housing Finance Agencies (HFAs) to develop and preserve assisted multifamily housing by strengthening the FHA Risk-Sharing program.

This legislation would authorize Ginnie Mae to securitize any FHA Risk-Sharing multifamily loans under the same terms and conditions as if the loan were insured under the National Housing Act. This proposal would result in cost savings for the federal government and would enhance liquidity, increasing the preservation and development of much needed affordable rental housing. This proposed was approved by the House Financial Services Committee last year.

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, along with many of their affordable housing partners.

State HFAs are most widely known for their 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. They also provide low-cost multifamily financing to facilitate the development of affordable rental homes. HFAs administer several key federal housing programs, including tax-exempt Housing Bonds, the Low Income Housing Tax Credit (Housing Credit), HOME, vouchers, and Section 8 project-based assistance, along with various state housing programs.

HFAs sell tax-exempt housing bonds to finance mortgage loans used to develop and preserve multifamily affordable housing. The mortgage loans funded by these bonds are typically securitized and sold, freeing up funds for further affordable housing loans. The HFA Risk-Sharing program, authorized by Section 542(c) of the Housing and Community Development Act of 1992 (12 U.S.C. 1707), is one of the primary multifamily affordable housing financing tools used by state HFAs. Under the Risk-Sharing program, loans underwritten by HFAs receive full FHA mortgage insurance, just like a standard FHA-insured mortgage. In the event of a default, FHA and the HFA apportion the loss according to a Risk-Sharing agreement entered when the loan was made.

The program has been very successful and continues to be an important tool, particularly in the current liquidity crisis, when owners and developers of affordable housing are having difficulty obtaining financing. Under the Risk-Sharing program, 23 HFAs have issued more than $4 billion in bonds to finance 774 developments with more than 88,000 apartments. Program loan default rates have been very low.

Despite the very low risk involved in Risk-Sharing loans, bonds used to fund these loans are difficult to sell, because of a statutory provision that prohibits securitization of HFA Risk-Sharing loans by Ginnie Mae. Without Ginnie Mae securitization, the bonds used to fund these loans do not receive Ginnie Mae credit enhancement and are less attractive to potential bond investors. Under the legislation the Committee approved last year, Ginnie Mae would enhance the bonds by providing a guaranteed pass-through of principal and interest payments while the loan insurance is being processed, thus increasing the liquidity of the bonds.

In the current economic environment, HFAs are struggling to sell bonds. If Congress authorized Ginnie Mae to securitize Risk-Sharing loans, some experts predict that the interest rate on the underlying mortgages could be reduced by as much as 200 basis points, or two percent. This rate reduction could translate into lower rents and potential rent subsidy savings for federally assisted apartments. Recent studies indicate that in the aftermath of the housing and financial crises, the demand for affordable rental housing far exceeds supply. Improving the liquidity of HFA Risk-Sharing bonds would help address this need.

We strongly encourage you to support legislation to eliminate the prohibition of Ginnie Mae securitization of HFA Risk-Sharing loans. This legislation would amend Section 542(c) of the Housing and Community Development Act of 1992 to permit securitization and credit enhancement of the Ginnie Mae bonds, which would facilitate the sale of bonds to fund HFA loans necessary for the preservation and development of affordable housing. Further, the increased development and preservation activity facilitated by this change would in turn stimulate local economies by creating jobs and investment. The proposed change would not impact underwriting or eligibility standards and should create de minimis additional risk to the federal government.

The Congressional Budget Office (CBO) estimates that enactment of this proposal would result in $20 million in mandatory savings over ten years ($2 million annually). CBO also concluded that the new authority would enable Ginnie Mae to guarantee $500 million in new loan guarantees in the first year and about $1 billion in new loan guarantees annually in subsequent years.

The proposed language is supported by Ginnie Mae, FHA, and HUD and reflects changes that were suggested by each. This proposal was included in H.R. 4868, the Housing Preservation and Tenant Protection Act, which the House Financial Services Committee reported in 2010.

Thank you for your consideration of this proposal. Please let us know if we can provide additional information. We would welcome the opportunity to discuss this legislation with you in person.

Sincerely,

Barbara Thompson

Barbara Thompson
Executive Director, NCSHA

cc: House Financial Services Committee Chairman Spencer Bachus
House Financial Services Committee Ranking Member Barney Frank