C H A P A

Citizens' Housing and
Planning Association, Inc.

October 30, 2013

The Honorable Elizabeth Warren
U.S. Senate
317 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Warren:

We, the undersigned organizations, are writing to request a meeting to discuss current housing finance reform legislation and to ask you to ensure that affordability and credit access needs are fully addressed in those efforts. The important of these issues cannot be understated.

In June, Governor Deval Patrick announced an ambitious new Massachusetts Homeownership Compact with a goal of reaching 10,000 first time homebuyers below median income over the next five years. The new housing finance system will determine not only the sustainability and robustness of the market, but also future opportunities for millions of families, the economic growth of the nation, and the success of initiatives such as the Compact.

It is critical that reform legislation provide broad access to credit, including in low and moderate income neighborhoods, and effectively address affordability needs. It should include the National Housing Trust Fund, the Capital Magnet Fund, a Market Access Fund and a "duty to serve" requirement.

Housing finance reform legislation must *place the needs of consumers at the center of the legislation*, rather than simply the goals of lenders and investors. The structures and processes of the secondary market are important but they are not ends in and of themselves; rather, they are a means to provide housing to our nation's families.

Reform should result in a system that provides credit to a broad and diverse population, rather than one in which credit and housing choices are more costly, more limited, and less sustainable, especially for low- and moderate-income households, households of color, and rural households. It must support adequate credit to meet the needs of renters and homeowners and must encourage lenders to provide broad access to credit. Overly restrictive access to credit risks destabilizing home values. By contrast, placing the goal of access to affordable, sustainable credit at the center of the bill's purpose and any guarantor's mission will provide the greatest benefit in the long run to families, lenders and investors, and will protect taxpayers from future bailouts.

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We understand that other bills are likely to be introduced, but the Housing Finance Reform and Taxpayer Protection Act of 2013 (S. 1217 – "Corker Warner") provides a starting point to discuss how to strengthen the system to ensure access and affordability. Most simply described, Corker Warner would replace the GSEs with government approved entities that will guarantee single-family mortgage backed securities (MBS) and a Federal Mortgage Insurance Corporation (FMIC) that will issue multifamily MBS. The FMIC will also regulate all MBS and offer a catastrophic guarantee. The bill has important strengths, including providing the explicit government backstop to private capital needed to provide ample liquidity and to support the 30-year fixed-rate mortgage, providing access to the system for small originators and calling for a single securitization platform as part of the responsibilities of the FMIC.

One major failing, however, is that Corker Warner does not adequately address credit access and housing affordability. It eliminates two current GSE obligations (a duty to serve underserved markets and oft-maligned affordability goals[1]), and weakens a third (the National Housing Trust Fund). It also does not do enough to encourage private lending to low and moderate income households and neighborhoods.

Corker Warner addresses credit access and affordability through direct funding. It requires the FMIC to impose a fee of 5-10 basis points (the amount is under discussion) on all the mortgage-backed securities it insures to fund the National Housing Trust Fund (NHTF) and Capital Magnet Fund. However, it revises the current NHTF statute in ways that would *halve* the share of funding to be used to assist low and moderate income households. (Whether total funding drops will depend on the fee level established.)

Both the NHTF and the Capital Magnet Fund were created under HERA in 2008. The Housing Trust Fund would provide block grants to states to develop and preserve affordable housing for households with incomes of up to 50% of area median income (AMI). The Capital Magnet Fund would provide competitive grants to community development financial institutions and non-profits for affordable housing, economic development projects for low-income families and activities that stabilize low-income or underserved rural areas (e.g. day care, workforce development). Under HERA, the Funds are to be capitalized by a 4.2 basis point fee on GSE new business, with 65% going to the NHTF and 35% to the Capital Magnet Fund. However, the FHFA suspended contributions before any were made after the GSEs went into conservatorship.[2]

A key feature of the National Housing Trust as currently authorized is its income targeting. Created to address the needs of households not served by current federal production programs, NHTF funds can only be used to benefit very low income households (at or below 50% of AMI). At least 90% of the funds must be used for rental housing, and of that, 75% must serve

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[1] GSE affordability goals were first authorized in the 1992 Federal Housing Enterprises Financial Safety and Soundness Act, which stated that the GSEs have an affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families. It required HUD to set goals based on national housing needs and the ability of the GSEs to lead the mortgage industry through underwriting and products. Currently, there are four single family and two multifamily goals/subgoals. The 2013 single family goals (as a percentage of total GSE home purchase mortgage purchases) are 23% for low income renters and owners (≤80% AMI), 7% for very-low income households (below 50% AMI) and 20% for properties in "low income areas" (median tract incomes at/below 80% AMI). There is also a low income goal (20%) for refinance mortgage purchases. The multifamily goals, (numbers of units financed) are 480,000 for low income and 120,000 units for very low income households. Despite a history of setting the goals too low, the GSEs have usually lagged the market in goal performance. Multifamily business has been important to GSE goal achievement, constituting 4.5% of their total business in 2008, for example, but about a third of the units used to meet the goal of serving low- and moderate-income persons.

[2] The Capital Magnet Fund received a one-time $80 million appropriation in FY2010.

households with incomes below 30% of AMI (extremely low income).

Corker Warner, as drafted, dilutes that targeting. While it would allocate a larger share of the FMIC revenue (80%) to the NHTF:

- Only 40% of the "National Housing Trust Fund" share would go to the original purpose - meeting the housing needs of very low income households (35% for rental housing, 5% for ownership). As a result, only 28% of total FMIC fee would go to rental housing, compared to 58.5% under HERA.
- The remaining 60% would go to a "Market Access Fund", to address the credit and affordability needs of households with incomes of up to 120% of AMI, through grants and loans to support the research and development of pilot programs for sustainable homeownership and affordable rentals and limited credit enhancement and other credit support for products and services that address that same goal.

We respectfully disagree with those who describe these funding initiatives as a replacement for the affordable housing goals or the duty to serve obligations.

The legislative history of the NHTF and of GSE affordability and access obligations recognize that the households most overlooked by the private sector are those with incomes below 80%, 50% and 30% of AMI AND those in underserved markets. Reform legislation should expand, not reduce, the expected performance of the housing finance system in addressing those needs. The proposed Market Access Fund has a role to play but should use lower income targeting and should not supplant production and preservation.

For these reasons, we ask that you work to ensure that housing finance reform legislation:

- Ensure that the mechanism for funding the National Housing Trust Fund fully funds the allocation under all economic circumstances and preserves HERA's income targeting for rental housing (30% and 50% of AMI).
- Retains funding for the Capital Magnet Fund as proposed in Corker-Warner; we also encourage Congress to consider an additional mechanism to allocate funding to local community based organizations that work to expand access to affordable rental and homeownership housing.
- Imposes a fee on mortgage backed securities that is sufficient to provide adequate funding to the NHTF, CMF and the market access programs established under the legislation.
- Restore and expand the" duty to serve" obligation to ensure that the nation does not end up with a two-tier mortgage lending system – one for low and moderate income households and one for everyone else. To do this, the legislation must include combat lender tendencies to ration credit or "cream" the market by requiring efforts to serve all population segments, housing types, and geographical locations including low and moderate income neighborhoods, in light of the elimination of affordable housing goals.
- Include specific provisions to help low/moderate income homebuyers by providing flexibility for the system to serve low-wealth borrowers. One important element would be to remove the 5 percent down-payment requirement from the legislation and instead permit the FMIC to address down-payment requirements in coordination with other regulators.

- Require servicers to engage in loss mitigation that aims to keep borrowers in their home and avoid foreclosure when doing so does not harm the interests of the investors as a whole and ensure portfolio capacity to handle buying defaulted loans out of securities without encouraging servicers to foreclose.
- Develop a more robust regulatory mechanism to monitor the housing finance system for safety and soundness, consumer protection, *and access and affordability*, working in coordination with other relevant regulators.

We would be happy to meet with you for a more detailed discussion on this topic. (We also refer you to a report by the Center for American Progress and the National Council of La Raza entitled "Making the Mortgage Market Safe for America's Families" , which reviews the needs in the current housing market and provides detailed suggestions on how to address them.)

We look forward to working with you to strengthen this promising legislation.

Sincerely,

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