July 26, 2005

The Honorable Richard Shelby
Chairman, Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

The undersigned organizations wish to advise you of our deep concerns regarding your substitute amendment to S. 190, "Federal Housing Enterprise Regulatory Reform Act of 2005." The amendment does not permit the Government Sponsored Enterprises (GSEs) to purchase tax-exempt single and multifamily housing bonds as well as Low-Income Housing Tax Credits. This is a shocking omission. The GSEs are critical partners of local and state housing agencies in expanding affordable housing opportunities for lower income households. According to data reported by the Office of Federal Housing Enterprise Oversight, in 2004, the GSEs bought nearly $8.1 billion in tax-exempt single and multi family housing bonds. This is approximately 36% of the total 2004 issuance of $22.7 billion. At the end of 2004, Fannie Mae and Freddie Mac together owned $31.4 billion in tax-exempt single and multifamily housing bonds.

The GSEs buy mostly long-term, fixed rate tax-exempt bonds, which comprised about 50% of the total tax-exempt bonds issued in 2004. They hold these bonds in their portfolios because it supports their affordable housing mission and because they have the capacity to manage the risk of owning mortgages. Most other investors prefer variable rate securities, which are more liquid and carry less interest rate risk. If the GSEs are no longer permitted to buy tax-exempt bonds the cost to bond issuers would increase by as much as 15 to 25 basis points or more according to the *Bond Buyer* newspaper. This is a significant additional burden that issuers would have to pay and would be passed on to the borrowers. We strongly urge you to expand eligible GSE activities to include purchasing tax-exempt housing bonds and Low-Income Housing Tax Credits. We believe that the GSEs should not only be permitted to purchase tax exempt bonds and Low-Income Housing Tax Credits but they should also be given credit toward their affordable housing goals for such investments. This would serve as a strong incentive for them to do much more to further their housing mission. Fannie Mae and Freddie Mac are the first and second largest purchasers of Low-Income Housing Tax Credits.

We are very concerned about the absence of an affordable housing fund into which the GSEs would contribute a portion of their net profits for used in underserved markets. Such a fund is a central feature of the House GSE reform bill and was included in the GSE bill approved by your Committee last year. Modeled after the Federal Home Loan Banks' Affordable Housing Program, the fund would be an important new resource that could expand affordable homeownership and rental housing opportunities in underserved areas and families.

We strong urge your and your Committee to favorably address these concerns as the legislative process unfolds.

Sincerely,
National Association of Local Housing Finance Agencies
U.S. Conference of Mayors
National Association of Counties
National Community Development Association
Council of State Community Development Agencies