

July 14, 2010

Office of the Undersecretary for Domestic Finance, U.S. Department of the Treasury  
Office of the Assistant Secretary for Policy Development and Research, U.S. Department of  
Housing and Urban Development  
Washington, DC

**Re: Public Input on Reform of the Housing Finance System**  
**eDocket Number: Treas-DO-2010-001**  
**eDocket Number: HUD-2010-0029**

Dear Sir/Madam:

The Nation's local elected officials and affordable housing and community development practitioners appreciate the opportunity to present this joint statement to the Departments of Treasury and Housing and Urban Development containing our recommendations for on the future of the housing finance system, including Fannie Mae and Freddie Mac, and the overall role of the federal government in housing policy.

**Maintenance of a Strong Federal Role in Housing Policy**

At the outset, we believe that the federal government must continue to maintain a strong and affirmative role in housing policy. This means that it must establish policies, and provide sufficient funding, that will assist its local government partners to effectively address their affordable housing and neighborhood revitalization needs in a flexible and efficient manner. Over the years programs such as the Community Development Block Grant, HOME Investment Partnership, the McKinney Act's homeless housing programs, and public and assisted housing programs have been, and continue to be, life lines to cities and urban counties as they cope with the housing needs of the Nation's low, very-low, and extremely-low income households. Continued availability of federal housing and community development resources is essential for the needs far outstrip the availability of scarce local resources.

**Fannie Mae, Freddie Mac and the Federal Home Loan Banks and their Support of Local Governments**

The Nation's cities and counties have engaged in effective partnerships with the Government-Sponsored Enterprises (GSEs), Fannie Mae, Freddie Mac, and the Federal Home Loan Banks for many years. These partnership activities have run the gamut from the GSEs purchasing tax-exempt single-family and multifamily housing bonds and investing in Low-Income Housing Tax Credits to individualized investments in specific neighborhoods and projects to affordable housing training. In many instances, but for the GSEs involvement, markets might not have been created or projects come to fruition. Thus, the future of the housing finance system and the role that the GSEs will play in that system is of keen interest to local elected officials and practitioners.

**Purchase of Tax-Exempt Bonds**

Beginning in 1987, Fannie Mae (and later, Freddie Mac) initiated a program to purchase tax-exempt Mortgage Revenue Bonds (MRBs) and multifamily bonds issued by local and state governments or their housing finance agencies (HFAs). The proceeds from the sale of these bonds were used to finance below market-rate mortgages for income-restricted, first-time home buyers or to assist in the construction and rehabilitation of privately-owned rental housing, a portion of whose units were set-aside for income-restricted households. The use of these bond proceeds for ownership and rental housing created significant opportunities to expand the number of first-time homebuyers and for adequately housing lower-income renters. In addition, the GSEs over the years have provided credit enhancement for tax-exempt multifamily housing bonds, an essential and affordable credit support for such bonds.

According to the then Office of Federal Housing Enterprise Oversight (now Federal Housing Finance Agency) in 2004, Fannie and Freddie purchased \$8.1 billion of the \$22.7 billion in tax-exempt single-family and multifamily housing bonds, or 36% of the market in such bonds. Without their involvement in the market then issuers of such bonds would have paid an additional 15-25 basis points on their bonds according to the industry paper, *The Bond Buyer*. In 2006, citing the lack of taxable income with which to offset its tax liability, Fannie Mae announced that it would no longer purchase tax-exempt bonds. Freddie Mac followed suit in 2007 for the same reason. The withdrawal of Fannie Mae and Freddie Mac from the market helped contribute to the collapse of the tax-exempt housing bond market in late 2007 and early 2008.

In the Housing and Urban Recovery Act of 2008 (HERA) Congress provided local and state housing finance agencies with \$11 billion in additional tax-exempt housing bond volume cap to assist first-time homebuyers, help borrowers with subprime mortgages threatened with foreclosure, and produce affordable rental housing. HERA also provided an exemption for the interest on housing bonds from the Alternative Minimum Tax. Unfortunately, these actions were not sufficient to stimulate a market for these bonds due to such factors as historically low conventional mortgage interest rates. It was not until late October 2009 that the Treasury Department created a market for tax-exempt single- and multifamily bonds where none existed. This was done through a program whereby it would buy single-family and multifamily housing bonds issued by local and state HFAs that were securitized by the GSEs. A number of the organizations who are signatories to this statement worked very hard for over a year to convince Treasury and the GSE's conservator, the Federal Housing Finance Agency, to authorize such a program. A total of \$15.1 billion was authorized for the purchase of housing bonds, securitized in Mortgage Backed Securities (MBSs) by the GSEs. We argued successfully that, while the GSEs could not benefit from the tax exemption, such a program was in keeping with the GSE's housing mission and that the program would ultimately be without cost to the federal government. The program is now being implemented and is expected to serve in excess of 100,000 homeowners and renters.

Authority under HERA for Treasury to purchase the securities and the bonds they support expired on December 31, 2009. Because the private capital market for tax-exempt housing bonds is not expected to return for some time, the organizations that are signatories to this statement are preparing to ask Congress to reinstate the HERA authority for Treasury to purchase

tax-exempt housing bonds. The GSEs also have the ability to and have provided credit enhancement for housing bonds. These are precisely the type of activities that the GSEs should be engaged and any reform legislation should provide for their continuance and expansion.

### **Purchase of Low-Income Housing Tax Credits**

Like their purchases of tax-exempt housing bonds, the GSEs were substantial players in the Low-Income Housing Tax Credit market, with estimates that they constituted over 35% of that market. However, they exited that market more than two years ago helping to cause a sharp drop in the value of these housing credits. In the American Recovery and Reinvestment Act of 2009 (ARRA) Congress recognized the upheaval that this was causing in the rental housing area and authorized a program where housing credit agencies could exchange 100% of their carry-over credits prior to 2009 and 40% of their 2009 tax credit allocation for \$.85 on the dollar. This was aimed at restoring financial feasibility to many tax-credit supported rental housing projects allowing them to go forward. The House-passed version of H.R. 4849, the “Small Business and Infrastructure Jobs Act of 2010” continues the cash for credits exchange program for the 9% tax credit in 2010 and also extends it to the 4% credit (the credit that is automatic with tax-exempt multifamily housing bonds). Efforts are underway to insure that the Senate version of the jobs legislation contains extensions of the exchange provisions for both the 9% and 4% credits.

Once they return to profitability the GSEs should be strongly encouraged to continue equity investments in Low-Income Housing Tax Credits.

### **Targeted Investments in Neighborhoods and Projects**

In years past Fannie Mae and Freddie Mac have made targeted investments in neighborhoods and projects throughout the Nation. These customized investments were made in partnership with local governments and non-profit and for-profit developers to expand homeownership and rental housing. Their efforts targeted underserved communities and households in an effort to expand affordable housing opportunities.

Examples of these equity investments by Fannie Mae through its American Communities Fund (ACF) and subsequent investment vehicles include such projects as Lakeshore Point, an 87-unit mixed income for-sale project in an area of Chicago that had experienced “white flight” and years of abandonment. In the words of the CEO of Shorebank Development Corporation Cindy Holler, “Conventional investors would not undertake the type of risk involved in a venture like Lakeshore Point. AFC and Shorebank Development Corporation are doing it because we have a mission to improve the community.”

An equity investment of more than \$1 million by ACF provided a gateway to neighborhood revitalization in north Philadelphia near Sixth Street and Germantown Avenue. A partnership with the City of Philadelphia and other public and non-profit organizations resulted in the acquisition, site development, and construction of Borinquen Gateway Plaza, a \$4.2 million 46,000 square foot shopping center boosting job creation and economic development in a nearby federal enterprise zone and the area around neighboring Temple University.

Renovation of a commercial building, Venus Gardens, into affordable housing in a distressed New Orleans neighborhood was the result of a local partnership that included the purchase by ACF of historic tax credits to help revitalize a building that was abandoned in the 1980s as the area's retail corridor declined. Then-Mayor Marc Morial said at the project's ribbon-cutting ceremony that, "This new apartment complex not only will provide affordable housing to local residents, it also will attract new businesses and act as a catalyst for other economic initiatives in the neighborhood."

Once they are profitable again, both GSEs should be encouraged to undertake these types of investments.

Freddie Mac works with low- and moderate-income homeowners through its Home Affordable Refinance Program and its Home Affordable Modification Program. The HOME Affordable Refinance Program helps existing credit worthy homeowners refinance into an affordable mortgage, while the Home Affordable Modification Program provides loan modifications for homeowners delinquent in their mortgage payments. Moreover, Freddie Mac recently awarded \$400,000 in grants to five non-profit organizations to help them continue housing counseling to homeowners facing foreclosure, a perfect role for the GSEs.

### **Federal Home Loan Banks - *Affordable Housing Program***

The FHLBanks have contributed significantly to the Nation's most underserved communities through the Affordable Housing Program and the Community Lending Program.

The FHLBank's Affordable Housing Program (AHP) provides grants and subsidized loans to support affordable rental housing and homeownership opportunities. Each FHLBank sets aside 10% of its net income to fund affordable housing for very low-, low- and moderate-income households. Since the AHP's inception in 1990, FHLBanks have contributed over \$3 billion in grants for 623,000 affordable housing units across the country.

The Federal Home Loan Bank of Boston provided \$340,000 in AHP funds to assist a non-profit purchase and rehabilitate a foreclosed rental property in Fall River, MA. The project will provide 17 units of permanent housing to the areas homeless. In Newton, MA, a \$50,000 grant from the AHP will be used to assist in purchasing and rehabilitating supportive housing for two families headed by low-income, homeless veterans. Boston Veterans Affairs Health Care for the Homeless will provide managed health care, counseling, and job placement assistance.

The Federal Home Loan Bank of Pittsburgh's Affordable Housing Program provided a \$1.25 million grant to the City of Reading, PA's community revitalization efforts to aid in the renovation of 275 units of affordable housing. A key focus of the initiative is the creation of housing for single parents who are transitioning from welfare to work.

Furthermore, the FHLBanks's Community Lending Program provides below-interest rate loans to member banks for community and economic development lending for a broad range of

activities such as renovation of manufacturing facilities, purchase of business equipment in qualified income areas, and an equity bridge financing for the Low-Income Housing Tax Credits.

These are all key activities that need to be encouraged and supported by the GSEs in a reformed system.

We hereby strongly recommend that the Obama Administration and the Congress preserve the essential partnerships roles now played by Fannie Mae, Freddie Mac and the Federal Home Loan Banks as well as the Federal Housing Administration and the Government National Mortgage Association.

### **Housing Finance System Reform**

We would like to associate our organizations with the recommendations of others who have testified before the Congress regarding the principles that should guide the Congress as it fashions a reform regime for the housing financed system. The housing finance system should provide

1. Liquidity to help insure the smooth flow of capital to the market by serving as the secondary mortgage market purchasing long-term, fixed rate mortgages that can be refinanced and prepaid.
2. Stability to insure the continued flow of capital to the market, particularly in times of economic distress such as the Nation has endured over the past two years, as well as after 9/11.
3. Affordability to support both single-family *and multifamily* housing that is affordable to a broad range of households.
4. Standardization of mortgage products offered to improve efficiency and transparency.
5. Clear mission to insure that those institutions that receive government support have a clear public mission and avoidance of private gain and public losses.
6. Strong regulation to ensure capital adequacy, that borrowers are protected from abusive practices, and have mortgages that are both suitable to their circumstances and properly underwritten.
7. Transition to ensure that any changes to the current system are carefully thought out and new structures, if any, are in place before existing ones are replaced.

Thank you for your favorable consideration of our views.

Sincerely,

U.S. Conference of Mayors (USCM)  
National Association of Counties (NACo),  
National Association of Local Housing Finance Agencies (NALHFA),  
National Association for County Community and Economic Development (NACCED)  
National Community Development Association (NCDA),

