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## Summary of Problems with Proposed GSE Housing Goal Rule

- Structure problems - Problem of trying to meet multiple objectives with a single tool.
- Market estimation problems – Goals set too high exacerbate existing market distortions and create operational problems:
  - Impact on multifamily market
  - Negative impact on the FHA program.
  - Absence of operational guidance will create uncertainty, driving up borrower costs.
  - Proposal will exacerbate risk shifting to lenders.

## Multiple objectives, single weapon

- Basing goals on overall ratios that combine home mortgages with apartment mortgages does not allow HUD to target specific outcomes.
- GSEs meet the goals through the least-cost solutions that are not necessarily what Congress had in mind.

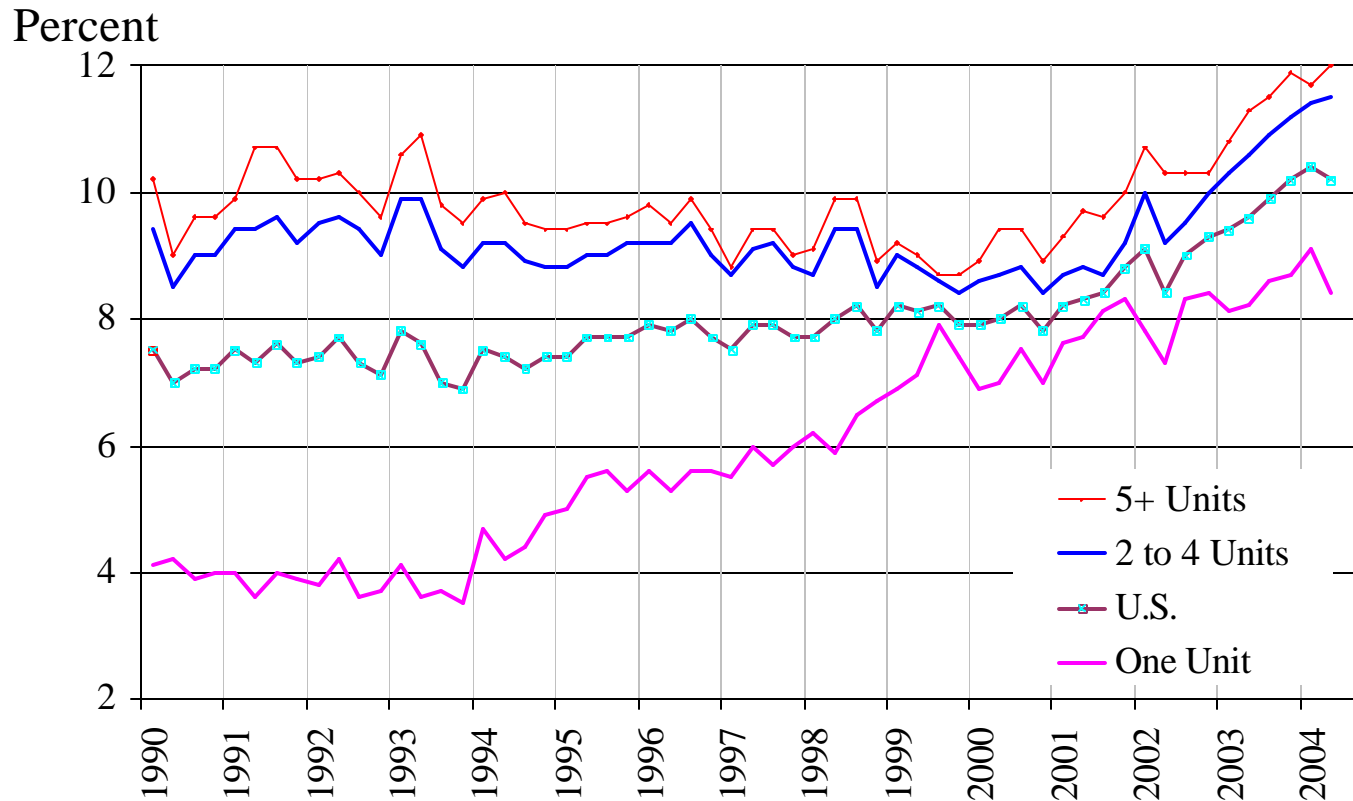
## Market measurement problems

- The proposed rule's conclusions on the size of the low-mod market are not credible.
- How "median" moves from 50% to 57%.
- The impact of HUD's getting it wrong will be to ration credit without a plan for how that credit should be rationed.

## Impact on the multifamily market

- Fannie/Freddie share of multifamily originations already exceeds their share of single-family originations.
- Did Congress intend for HUD to encourage the GSEs to capture 90% of multifamily market?
- Move from risk-based pricing to competitive-based pricing has moved many traditional lenders and investors out of the multifamily market.
- Is there a shortage of apartments?

# Rental Vacancy Rates

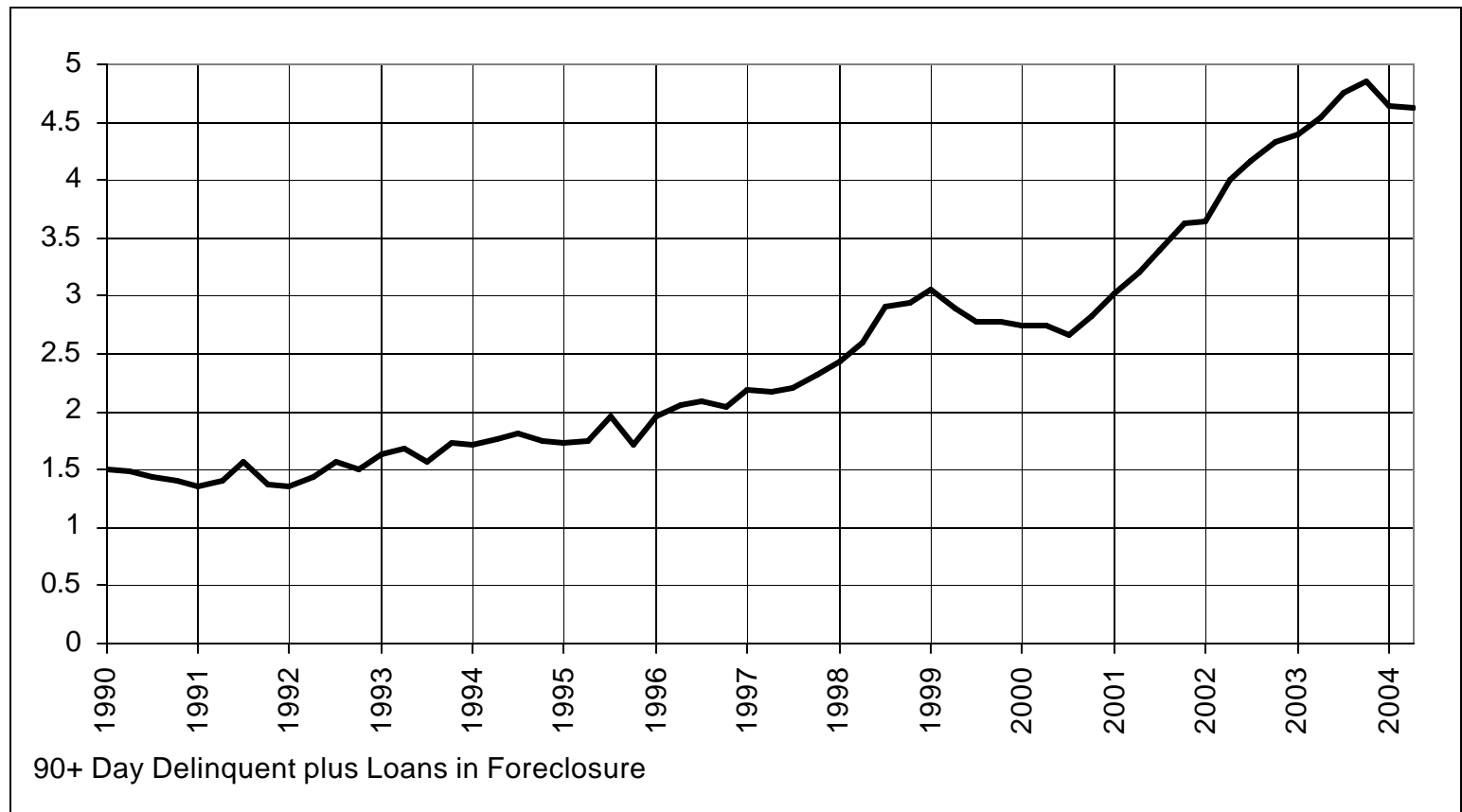


Source: Census Bureau

## Impact on FHA

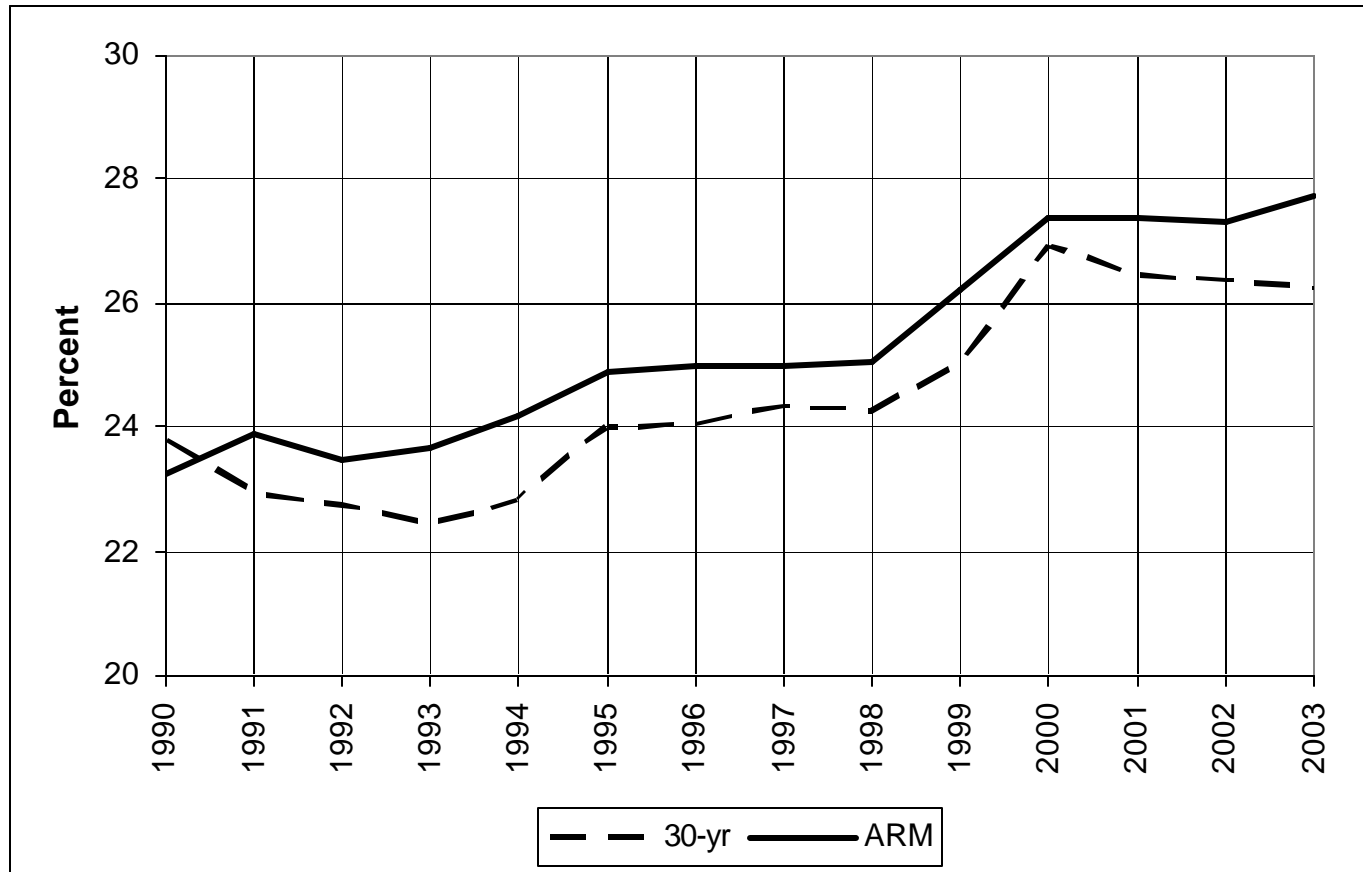
- Long-term future of FHA is already in question. Given the loss of the cross-subsidization by the better performing FHA loans, will higher premiums and/or Congressional appropriations be needed to sustain what is left?
- Will the goals encourage the GSEs to capture a greater share of just the better FHA loans? What happens to the rest?
- Will the result be a net reduction in affordable lending?

# Difference between FHA and Prime Loan Serious Delinquencies



Source: MBA National Delinquency Surveys

# FHA Payment-to-Income Ratios by Origination Cohort Year



Source: FHA 2003 Actuarial Review of MMI Fund

## The Cost of Operational Uncertainty

What is the result of HUD getting the market sizing wrong? Operational uncertainty, the cost of which will be passed on to borrowers.

- Limitations on delivery of non-goals-qualifying loans.
- Locale-based loan limits rather than national limits.
- Suspension of deliveries near year-end.
- Differential pricing based on goals eligibility rather than credit risk.

## Risk Shifting to Originators

Much of the risk of affordable lending is shifted to third parties, including lenders, the cost of which may be passed to borrowers.

- Increased requirements for buybacks and indemnifications on affordable housing loans.
- Higher guaranty fees for delivering riskier loans.

# Conclusions

- Need to look at the potential benefits for affordable lending if HUD's calculations are correct versus the costs to the market if HUD is wrong, and weight those outcomes by the probability that HUD's calculations are correct.
- Not really possible to argue unintended consequences because it is not clear what are HUD's intended consequences.
- If it is HUD's goal that GSE participation in the higher income markets should be reduced or rationed, HUD should be explicit in saying what the mechanism should be for imposing that rationing so that the industry can comment or plan accordingly.