

# 2004 Proposed GSE Affordable Housing Regulation

American Enterprise Institute

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# GSE Affordable Housing Regulation

- Fannie and Freddie have two main functions:
  - Provide liquidity to the mortgage market
    - i.e. – bring “Wall Street” to “Elm Street”
    - On an individual mortgage transaction, benefit to homeowners is de minimus
      - Median Mortgage Borrower: \$268 yr/73 cents day
      - Very Low Income Family: \$160 yr/41 cents day
  - Provide assistance to low- and moderate-income housing
    - 1992 Act
      - Section 1335 requires GSEs to fund CRA loans
      - GSEs should not expect to earn market rates-of-return on these activities

# GSE Affordable Housing Regulation

- HUD was guided by four main principles in this rulemaking, as well as its three prior rulemakings on this issue:
  - To make the GSEs the leaders in the market
    - Key areas and populations
  - To eliminate discrimination in lending
  - To set parameters without dictating special loan products or delivery mechanisms
  - To support an active secondary mortgage market in multifamily lending

# GSE Affordable Housing Regulation

- CMC largely supports HUD's broader policy goal to improve the GSEs AH performance, *but*
- The proposed rule will, in our view --
  - Still place the GSEs *behind* the market in key respects
  - Will likely create distortions in existing housing market
- Why?
  - GSE affordable housing goals don't match up with CRA definitions
    - 1992 statute is flawed
  - Rule is overly-focused on market segment that does not need help

# GSE Affordable Housing Regulation

- Low Income:
  - GSE Definition: 80% or below of AMI
  - CRA Definition: 50% or below of AMI
- Moderate Income:
  - GSE Definition: 100% or below of AMI
  - CRA Definition: 80% or below of AMI

# GSE Affordable Housing Regulation

- HUD should implement Section 1335 of 1992 Act requiring GSEs to purchase CRA-eligible loans
- The final rule should be replaced; HUD should set either –
  - A new goal for funding of CRA-eligible home-purchase loans, with low- and moderate-income (LMI) subgoals; or
  - Subgoals within the current goals for purchases of CRA-eligible or LMI home-purchase loans
    - Existing goals for the 80% to 120% of area median-income would be maintained

# GSE Affordable Housing Regulation

- *More specifically...*
  - Under either the separate CRA goal or through CRA subgoals, CMC recommends three CRA subgoals –
    - Affordable Housing Goal: Borrowers below 80% of AMI
    - Special Affordable Housing Goal: Borrowers below 50% of AMI
    - Underserved Areas Goal: Communities below 80% of metro or non-metro AMI

# GSE Affordable Housing Regulation

- GSE goals and subgoals should be discrete for single-family and multifamily sectors
- HUD should work with the bank regulators to establish size of CRA market – and then set goals and subgoals
- GSEs should not count mortgages for AH goals without borrower income information
  - Consistent with HMDA and CRA

# GSE Affordable Housing Regulation

- HUD should use its general regulatory authority to require the GSEs to develop appropriate standards to ensure that the benefits of GSE status flow through to LMI borrowers and LMI areas –
  - Underwriting standards
  - Business practices
  - Repurchase requirements
  - Pricing
  - Fees

# GSE Affordable Housing Regulation

- HUD should also use its general regulatory authority to prevent onerous business practices (e.g., unreasonable recourse requirements)
  - No AH credit should be given for loans the GSEs require lenders to repurchase unless fraud or serious misconduct is involved

# GSE Affordable Housing Regulation

- HUD should institute a series of additional reforms and reporting requirements to assist enforcement of the AH goals
- HUD should also revise its regulations regarding new programs to define “new program” more broadly and condition approval of new programs on compliance with AH goals

# GSE Affordable Housing Regulation

- Multifamily –
  - CMC focused its comments on the single-family market, *but*
    - GSE participation in multifamily transactions does not seem to have benefited the consumer
    - GSE participation has benefited the investment banker and/or the developer

# GSE Affordable Housing Regulation

This is HUD's *fourth* attempt to impose meaningful AH requirements on the GSEs

*Let's get it right this time around*