

Industry Calls for Balanced Housing Policy in Wake of Homeownership Ups and Downs

By Michael J. Novogradac, CPA, Novogradac & Company LLP

The drastic turn of events in the housing market could be foreseen as early as 2004. It was then that several housing professionals and organizations began to warn that the American Dream of homeownership could become a nightmare. And for many, it has.

“The current situation in the housing market is an unfortunate turn of events that is made even more unfortunate by the fact that it was completely foreseeable and preventable,” said Doug Bibby, president of the National Multi Housing Council (NMHC). “For decades the government has pursued a ‘homeownership at any cost’ housing policy. They, like other participants in the housing sector, mistakenly assumed that prices would always go up. They enticed people into houses they could not afford, and they forgot the rarely spoken truth that there is such a thing as too much homeownership.”

Four years ago stories in major newspapers noted that the growth of personal credit problems was taking its toll, producing a record number of foreclosures. Home ownership was even then becoming a terrifying backdrop for far too many who had taken advantage of an exuberant market brought about by low interest rates, lax lending practices and unsustainable price appreciation. These homeowners ultimately saw their dream turn ugly.

In July of 2004 I wrote that the White House had seized on rising homeownership rates as a major contributor to the country’s economic revival and social stability. It was a time when a whopping 68.6 percent of the country’s residents

owned their homes. Some industry professionals like Henry Cisneros, former U.S. Department of Housing and Urban Development (HUD) Secretary, and Bruce Katz of the Brookings Institution and former chief of staff at HUD, took a contrarian view to the conventional wisdom that federal policy was the culprit; they maintained that it was the historically low interest rates that explained what at the time seemed like a bright spot in the national economy.

Ever louder, ever increasing calls for homeownership incentives sent investors, developers and lenders into a frenzy of activity. To accommodate the demand for homes, interest rates reached their lowest point in years, innovative lending programs of arguable merit were instituted and unsustainable price appreciation became the phenomenon of the day.

The regrettable result of all this unfettered action is today’s slowed economy and a housing downturn that provides great risk to the U.S. economy.

Corrective Action Being Taken

On January 7, Treasury Secretary Henry M. Paulson speaking to a gathering of the New York Society of Securities Analysts said that the Bush Administration would be taking steps to prevent market failure. The three-step plan includes a reaching out to homeowners who are or will be struggling with their mortgages, the development of new mortgage products that will allow more people to stay in their homes, and a systemic streamlining process that “replicates normal

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market actions to fast-track borrowers toward possible solutions" to their dilemma.

President George W. Bush said on December 6 that his administration's latest proposals for responding to the subprime crisis included allowing state and local governments to use tax-exempt housing bonds (MRBs) to refinance subprime loans. Mortgage refinancings are currently not permitted under the MRB program; its purpose is to provide affordable mortgage loans to first-time homebuyers. This plan to limit foreclosures by working with key lenders and investments firms to freeze interest rates for five years on certain subprime mortgages is supported in part by many in the industry, including the National Council of State Housing Agencies (NCSHA).

Subprime Impact on LIHTC

Many tax credit syndicators are concerned that investment in low-income housing tax credits (LIHTCs) are likely to drop because of the effects of the subprime mortgage cri-

sis. Tax credit sponsors last month reported prices from the mid-80s to the mid-90s, depending on the market. Various reports note that the price of tax credits dropped 5 cents to 6 cents from the fourth quarter of 2006 to the fourth quarter of 2007.

Rick Goldstein, of Nixon Peabody LLC and general counsel for the Affordable Housing Tax Credit Coalition, speaking at Novogradac & Company's 14th Annual Tax Credit Developers Conference in Florida last month noted that while the subprime mortgage crisis is not directly affecting the LIHTC market, the investors in subprime loans are the very same as those who invest in the LIHTC. "So, they have a lot less money these days," he said. "Their appetite for tax-advantaged investments is a lot less and a major number of long-time major investors are sitting on the sidelines until this straightens itself out and they can get back into a more profitable position." Goldstein said that syndicators are going to have offer higher yields to attract investment into the LIHTC program and "higher yields mean lower prices to developers."

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Government-sponsored entities Fannie Mae and Freddie Mac, which had purchased as much as 40 percent of available tax credits annually, are among those on the sidelines and, Goldstein says, "that's 40 percent of the market right there."

Lenders are reporting lower interest rate indexes and widened spreads in the wake of the subprime loan meltdown. Paul Buckland of Wachovia attributes increasing spreads to market volatility. Phil Melton of Grandbridge Real Estate Capital says he's seeing an overall reduction in rates associated with the transactions but is seeing a widening of the spreads to some of the widest points he's seen in years. He also says that ratings are much lower and there is a premium for borrowers engaging in rated transactions.

Industry Response to Proposed Plan

The Administration's proposed plan provides for a three-year (2008-2010) cap increase limited to subprime refinancings. Treasury did not specify the amount of the increase it seeks, suggesting it would be determined in consultation with Congress. In its discussions with Treasury, NCSHA said it has stressed the importance of states having flexibility in structuring their programs and the importance that any proposal be coupled with a cap increase, preferably a housing bond cap increase not limited to subprime refinancings.

"We understand the Administration intends to seek a cap increase, but we are concerned it will propose only a temporary increase limited to subprime refinancings," says NCSHA in a statement issued in response to the president's proposal. "State HFAs need more housing bond authority to meet their ever-growing affordable housing needs. Even before the subprime crisis, state private activity bond volume caps were inadequate to meet housing demand."

From its vantage point as the coordinator of numerous federal advocacy efforts for affordable housing for the nation's state housing agencies, NCSHA noted that states are experiencing a substantial increase in MRB demand as homebuyers rush to state housing finance agencies

(HFAs) for affordable, quality mortgage loans. Determined to help as many of these homebuyers as possible so they do not wind up in abusive or unsuitable loans, NCSHA says that HFAs should not be forced to choose between helping homeowners out of bad loans and helping others become homeowners with the help of MRBs. "The Administration and Congress can help states do both by providing a significant increase in housing bond authority," says NCSHA in its statement.

On another very positive note, the proposal urges Congress to consider exempting refinancing MRBs from the AMT.

The National Association of Home Builders (NAHB) says the Administration's plan to help struggling homeowners stay in their homes is "one of several" steps that can be taken to help stabilize the housing market. NAHB president Brian Catalde, a home builder from El Segundo, Calif, called on Congress to follow up quickly on pending legislation that would help ease the credit crunch and restore confidence in the marketplace. He asked that Congress enact FHA reform to insure more home loans and help subprime borrowers, strengthen regulatory oversight of Fannie Mae and Freddie Mac to allow them to purchase mortgages in high-cost markets, and enact legislation to eliminate taxes on mortgage debt that is forgiven as part of a loan workout.

NMHC calls on the government to recognize its own mistakes and ensure that nothing similar happens again. "That means, among other things, recognizing that homeownership isn't the right housing choice for all households at all points in their lives," said Bibby.

We agree with the NMHC that housing our diverse nation well means having a vibrant rental market along with a functioning ownership market. We believe that means a balanced national housing policy in which the federal government provides for rental housing to the same extent that it provides for homeownership. ❖

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