

# Affordable Housing Fund a Major Piece of Proposed GSE Reform Bill

By Michael J. Novogradac, CPA

The House Financial Services Committee on March 29 passed H.R. 1427 to create a new regulator for the government sponsored enterprises (GSEs) Fannie Mae, Freddie Mac and the Federal Home Loan system. The bill, as amended, passed on a bipartisan majority of 45 to 19.

Under the new legislation, oversight of the GSEs would be transferred from the Department of Housing and Urban Development (HUD) to the new regulator, which would have increased control over the GSEs' portfolios and capital requirements. Fannie Mae's and Freddie Mac's combined portfolio is \$1.4 trillion and their required reserves as of December 31, 2006 were, according to the Office of Federal Housing Enterprise Oversight (OFHEO), adequately capitalized.

Importantly for the affordable housing industry, the proposed Federal Housing Finance Reform Act of 2007 would create an affordable housing fund that would allocate about \$500 million for housing programs each year for five years. The affordable housing fund would be financed by contributions from Freddie Mac and Fannie Mae based on the size of their portfolios; their contributions would be calculated in amounts equal to 1.2 basis points on the average total mortgage portfolio, whether held in portfolio or backing securitizations.

The fund, which sunsets in 2011, will target low- and very low-income populations. In its first year all of the fund monies will help rebuild those communities hardest hit by Hurricane Katrina.

There was some controversy on the creation of the fund; opponents charged that it amounted to a tax on homeowners supported by the GSEs.

## Some Background

In testimony before the House Committee on Financial Services on March 15 following the March 9 introduction of legislation, affordable housing representatives expressed strong support for legislation

that would not only create a new, independent regulator with broad powers but also create an off-budget and non-taxpayer financed affordable housing fund that would dedicate hundreds of millions of dollars for the construction maintenance and preservation of affordable housing.

In the second of two hearings, the National Association of Affordable Housing Lenders, the National Council of State Housing Agencies and the National Low-Income Housing Coalition lent their support to H.R. 1427, introduced by Reps. Barney Frank, D-Mass., Richard Baker, R-La., Mel Watt, D-N.C., and Gary Miller, R-Calif.

Frank, who chairs the House Financial Services Committee called the bill "very important" and said it would "enhance the regulatory authority in an appropriate manner, while significantly improving the contribution the GSEs will make to increasing the stock of affordable housing in the country."

Baker said that the legislation culminates eight years of "painstaking consensus-building and a solid foundation for bipartisan negotiation, improvement, and — hopefully and at long last — action." He noted that the bill creates tough regulatory oversight that addresses the risks that the GSEs portfolios present to taxpayers and the financial system.

Watt's comments were music to the ears of many in the affordable housing industry. The congressman noted it was time to "expeditiously" consider and pass GSE reform. "The real benefit of this bill is that it will ... provide a big stimulus for more affordable housing," he said.

On a similar note, Miller recognized communities that are underserved by the GSEs because entry-level home prices surpass the national conforming loan limit. "This bill addresses this disparity and provides for high-cost areas to exceed the national loan limit based on their median home prices," he said.

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## Industry Input

In his March 15 testimony, Thomas Gleason, executive director of MassHousing speaking on behalf of the National Council of State Housing Agencies (NCSHA), called for the GSEs to continue their “vital” role to “supply critical liquidity and stability in the mortgage market” and cautioned against a regulator imposing capital standards and portfolio restrictions that “may cause the GSEs to curtail their affordable housing activities, unless such steps are necessary to ensure the GSEs’ safety and soundness.”

In voicing strong support for requiring Fannie Mae and Freddie Mac to commit significant resources to an affordable housing grant fund, Gleason noted that the GSEs enjoy substantial financial benefits from their federal charters and, therefore, have a responsibility to devote some of these benefits to increasing affordable housing opportunities. NCSHA also supports the bill’s provision that the administration of the fund be assigned to the states because “they are best positioned to make maximum use of these new resources.” Under the proposed legislation, each state would allocate funds under its own allocation plan, based on priority housing needs in each state. Funds would be redistributed from any state that does not obligate funds within two years.

The National Low Income Housing Coalition, represented by its president, Shelia Crowley, called for some portion of the affordable housing fund be directed to Alabama and Texas as well as Louisiana and Mississippi. As passed, the legislation would give Louisiana 75 percent of the available fund in the first year and Mississippi would receive 25 percent. “This is a very fitting use of these funds, which NLIHC enthusiastically supports,” Crowley said, noting, however, that all four states lack sufficient funding to restore lost housing that is affordable to the households that would be eligible for help under H.R. 1427.

Crowley also called for a cap on the amount of funds that can go toward homeownership activities. “We suggest a change that will assure a majority of the funds will be spent on the construction or rehabilita-

tion of physical housing units,” she said. “We want these funds to go to addressing the most pressing housing need in our country, the shortage of rental housing that extremely low-income families can afford. The affordable housing fund will be an important new tool in the toolbox of responsible developers that will allow them to include a portion of units in each project that are affordable for this population.” While 100 percent of the funds must be used for the benefit of very low- and extremely low-income families, at least 10 percent of the funds must be used by each state for homeownership purposes and no more than 12.5 percent could be used for public infrastructure activities that support housing.

The National Association of Affordable Housing Lenders (NAAHL) “strongly supports improved GSE regulations” and like NCSHA noted the very substantial proprietary advantages that Fannie Mae and Freddie Mac enjoy and called on the government to channel the GSEs efforts to provide private capital, on fair terms, for affordable housing. “At least 65 million Americans with housing problems have household incomes of 80 percent or less of area median income,” testified Judith A. Kennedy, NAAHL president and CEO. She also noted that moderate-income families are “driving ‘till they qualify;” employers are having trouble attracting employees who need affordable housing; and seniors subsisting on Social Security income want to live near their families.

## Conclusion

Much has been happening in the world of affordable housing recently and the future looks positive. The Senate version to improve the oversight of Government Sponsored Enterprises (GSEs), S. 1100, was introduced on April 12 by Sens Chuck Hagel, R-Neb., along with John Sununu, R-N.H., Elizabeth Dole, R-N.C. and Mel Martinez, R-Fla.

The industry appears to have a good number of like-minded advocates in Congress, including many in leadership positions, with whom they can meet and provide the industry’s goals. A foremost concern is that for the last 20 years the number of subsidized rental housing has not changed while rents have soared and

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the numbers of those who need this housing has increased. It has reached the point where almost 50 percent of poor households spend more than half their income on rent.

According to Barbara Sard, a housing activist with the Center on Budget and Policy Priorities, “The big question is whether the Democrats are really committed to change, or whether they’re just making political statements.” It is up to us in the affordable housing industry to work with our representatives to ensure that the recent bipartisan efforts on behalf of GSE reform and oversight legislation by members of the Financial Services Committee is the beginning of a real bipartisan effort to bring affordable, decent and safe housing to those who need it. ❖