THE END OF AFFORDABLE HOUSING? A REVIEW OF THE TRUMP ADMINISTRATION'S PLANS TO CHANGE HOUSING FINANCE IN AMERICA

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HOUSE COMMITTEE ON FINANCIAL SERVICES

MAXINE WATERS, California, *Chairwoman*

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Tuesday, October 22, 2019

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:08 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Velazquez, Sherman, Clay, Scott, Green, Cleaver, Foster, Beatty, Heck, Vargas, Gottheimer, Lawson, Tlaib, Porter, Axne, Casten, Pressley, McAdams, Ocasio-Cortez, Wexton, Adams, Dean, Garcia of Illinois, Garcia of Texas; McHenry, Lucas, Posey, Luetkemeyer, Huizenga, Stivers, Barr, Tipton, Williams, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, and Riggleman.

Chairwoman WATERS. The Committee on Financial Services will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "The End of Affordable Housing? A Review of the Trump Administration's Plans to Change Housing Finance in America."

Before I recognize myself, Members, today is Mr. McHenry's birthday.

If anyone wishes to sing happy birthday, please save it until later.

Mr. MCHENRY. We all thank you for that, Madam Chairwoman.

Chairwoman WATERS. Happy Birthday.

Mr. MCHENRY. Thank you.

Chairwoman WATERS. I now recognize myself for 4 minutes to give an opening statement. Good morning. Today, we are here to discuss the impact of the Trump Administration's housing finance reform plans. We are joined by Treasury Secretary Steven Mnuchin, HUD Secretary Ben Carson, and Federal Housing Finance Agency Director Mark Calabria.

Welcome. Let me say upfront that the Trump Administration's housing finance reform plan would be disastrous for our housing systems. The Trump Administration is threatening to end the conservatorship of the Government-Sponsored-Enterprise (GSEs) without congressional action to provide an explicit government guarantee. If implemented in this way, it is likely it would create turmoil in the housing market, prevent many Americans from obtaining 30-year fixed-rate mortgages, and block families across the country from attaining the American Dream of homeownership.

With this reckless plan for administrative action on the table, the Trump Administration also recommends that Congress make several harmful legislative reforms. For example, the Trump plan would abolish the affordable housing goals which help to support affordable homeownership and rental housing, and replace them with a mortgage fee for which Trump officials have not bothered to spell out the details. The plan would also fundamentally undermine the Federal Housing Administration's (FHA's) ability to create affordable homeownership opportunities.

The Trump Administration has proven again and again that it is not to be trusted. It has consistently pushed for harmful housing policies and for slashing and eliminating key housing funding for those most in need. This is an Administration that has proposed tripling rents on our lowest-income households, and slashing HUD's budget by 18 percent.

This is an Administration that has eliminated protections for LGBTQ+ individuals, blocked Dreamers from FHA loans, and proposed to make it nearly impossible for victims of housing discrimination to obtain justice. This is an Administration that reportedly wants to raze homeless camps and round up persons experiencing homelessness and force them to live in decrepit Federal buildings. By contrast, Democrats on this committee have put forth measures to improve the affordability and availability of housing. For example, we have bills to end the homelessness crisis, make FHA mortgages more affordable, and protect Dreamers, LGBTQ+ individuals, families and children with mixed immigration statuses, and foster youth.

When it comes to the housing finance system, I have long maintained that any housing finance reform proposal should adhere to certain key principles. These principles include: maintaining access to the 30-year fixed-rate mortgage; ensuring sufficient private capital is in place to protect taxpayers; providing stability and liquidity so that we can withstand any future financial crisis; ensuring the smooth transition to a new finance system; requiring transparency and standardization in a way that ensures a level playing field for all financial institutions, especially credit unions and community banks; maintaining access for all qualified borrowers who can sustain homeownership; and serving homeowners of the future and ensuring access to affordable rental housing.

It is clear that the Trump Administration proposal does not live up to these principles. Today, this committee will examine why the officials who are our witnesses today are supporting such a harmful plan.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes for an opening statement.

Mr. MCHENRY. Thank you, Madam Chairwoman, and I want to thank the distinguished panel for being here today. Let me begin by saying this: This is a powerful opportunity for bipartisan cooperation. We have a willing Administration who has engaged in a productive dialogue on housing finance reform for the long term. Divided government is not ideal for many things, but it is an ideal moment for difficult policy that divides both parties. Housing finance reform divides both parties. There is not a partisan-only coalition that can produce fundamental housing finance reform. Democrats have tried it and failed; Republicans, likewise, have tried it and failed. In order to have a lasting change to our housing finance system, to put it on a sustainable path for our taxpayers and for our communities, it is important that we legislate in a bipartisan way, and this is an ideal moment to do it.

I am encouraged that Secretary Mnuchin and Secretary Carson have proposed a long-term solution. It is a positive first step on a multi-year path toward building a housing finance system that makes the goal of affordable homeownership more achievable. And while by no means perfect, it sketches a path forward, and away from the status quo that puts taxpayers at risk and prevents competition within the market. Inaction puts taxpayers at risk. Let me say that again. Inaction, legislative inaction, regulatory inaction, puts taxpayers at risk.

In January, I reached out to Chairwoman Waters on ideas for committee hearings that I thought could be bipartisan. This was one of them. I offered that back in January, and 11 months later, we are here today, but 11 years ago, we, in the Federal Government, placed in conservatorship and nationalized after their collapse, Fannie Mae and Freddie Mac, with over $200 billion in taxpayer bailouts. We don't want to relive that. This Administration cannot do it alone and put us on a satisfactory path.

Today, Fannie Mae and Freddie Mac remain a conservatorship, unreformed, and without competition. Our current economy is strong. This is the time to do housing finance reform because of the economic conditions as well. But with an inevitable downturn at some point in time, and without congressional action in reform of the GSEs, a bailout of these institutions is more likely than not. In fact, until Director Calabria took over, the GSEs had a capital ratio of 1,000-to-1, meaning that even a small dip in the market would guarantee failure. Housing finance is too important to be put at that type of risk. Our housing market has been trending upward for at least the last 8 years, so we may be reaching the top of the housing cycle.

We have serious systemic risk at the GSEs and the Federal Housing Administration. It is important that we legislate for the long term. We know it is not easy, but it is necessary. We can't kick the can down the road. I want to highlight a few portions of the Administration's proposal that this committee needs to focus on.

First, a new housing finance system must first set clear boundaries between the respective roles of the GSEs and FHA. Second, Congress needs to encourage competition by leveling the playing field, and creating an open chartering process to provide a path for other companies to attain these benefits. I think we can work together and achieve a bipartisan outcome that creates that competition, that certainty in the marketplace, and I think this can make the American people proud and put us on firm economic standing for generations to come.

And with that, I yield back.

Chairwoman WATERS. Thank you. I now recognize the gentleman from Georgia, Mr. Scott, for 1 minute.

Mr. SCOTT. Thank you very much, Madam Chairwoman. Welcome, to the witnesses. Madam Chairwoman, as you know,this marks the 10th anniversary of the passing of the Dodd-Frank Act, and the tremendous financial crisis that we went through. But there is no more burning point to show the great failure at this point than as we look across the country, in every State, in every community, and it is filled with homelessness. So we have to take a very serious look at this, and we are hopeful in this committee that we will do so. We have to focus on certainly protecting that 30-year mortgage, and we have to ensure that sufficient private capital is in place to protect our taxpayers, so there is so much for us to get to. The American people are depending on us, and I sincerely hope that you three gentlemen will open our eyes to much of what we are now only dimly aware. Thank you.

Chairwoman WATERS. I now recognize the gentleman from Ohio, Mr. Stivers, for 1 minute.

Mr. STIVERS. Thank you, Madam Chairwoman. As the Members are all aware, Fannie Mae and Freddie Mac have now been in conservatorship for 11 years. I have been in Congress for 9 years and I am already on the top row. This is a long overdue process that we need to deal with. The committee has seen proposals come and go. We have seen House and Senate proposals, Democratic and Republican proposals. Our witnesses made it clear in their written testimony that they prefer comprehensive reform imposed by Congress, but if not, they intend to proceed with some administrative reforms.

It is my hope that we can use this hearing as an opportunity to restart our work that we should have completed long ago, a bipartisan, comprehensive reform that ensures Americans can achieve the dream of homeownership, provides stability to the housing system, and that prevents any future taxpayer-funded bailouts. This hearing should be the first of many aimed at proving the skeptics wrong in achieving those goals.

I yield back the balance of my time.

Chairwoman WATERS. Thank you very much. I want to welcome today's distinguished panel. We will first hear from the Honorable Steven T. Mnuchin, Secretary of the U.S. Department of the Treasury. Secretary Mnuchin has testified previously before the committee, and needs no further introduction. Welcome.

We will then hear from the Honorable Dr. Benjamin S. Carson, Secretary of the U.S. Department of Housing and Urban Development. Secretary Carson has also testified previously before the committee, and needs no further introduction. Welcome.

Finally, we will hear from the Honorable Dr. Mark A. Calabria, Director of the Federal Housing Finance Agency (FHFA). This is Director Calabria's first appearance before the committee. He has served as Director of the FHFA since April of this year. In recent years, he has served on the Republican staff of the Committee on Banking, Housing, and Urban Development; worked at the Cato Institute; and most recently, he served as as Chief Economist to Vice President Michael Pence. Welcome, Director Calabria.

For purposes of testimony, each of you will have 5 minutes to summarize your testimony. And without objection, your written statements will be made a part of the record.

Secretary Mnuchin, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF THE HONORABLE STEVEN T. MNUCHIN, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary MNUCHIN. Thank you. Chairwoman Waters, Ranking Member McHenry, and members of the committee, I am pleased to be with you today to discuss the Department of the Treasury's housing reform plan. Last month, my colleagues and I testified before the Senate Banking Committee after the release of the plan. The comments and legislative frameworks we have seen from Members of both parties reflect bipartisan agreement on the need for legislative action, and on the general principles of reform. I am hopeful that with some good-faith discussions, Congress and the Administration will act in a comprehensive manner to support affordable housing, appropriately tailor the Federal Government's influence over the housing finance sector, protect taxpayers from future bailouts, and foster a competition that will benefit consumers. That is why I was surprised and disappointed by the title of this hearing, which asked whether the Administration's plan is an end to affordable housing.

To be clear, Treasury does not propose, and indeed opposes, reducing or eliminating the Government-Sponsored Enterprises' (GSEs') long-standing support for affordable housing. I am grateful for the opportunity to clarify Treasury's recommendations here today, and explain how our plan will preserve support for affordable housing while also improving the efficiency, transparency, and accountability of the mechanism for delivering that support. Treasury's plan advocates for continued government backing for and widespread availability of the 30-year fixed-rate mortgage loan. And the GSEs, or their successors, should continue helping to fund multi-family housing for low- and moderate-income and other renters.

In addition to this general support for affordable housing, the GSEs have at least four key statutory mandates to promote access to affordable mortgage credit for historically underserved borrowers and renters: one, a duty to serve focused on three specific underserved markets—manufactured housing, affordable housing preservation, and rural markets; two, a requirement to make certain periodic contributions to the housing trust fund and the capital magnet fund; three, charter authority to promote access to mortgage credit throughout the United States, including central cities, rural areas, and underserved areas; and four, a requirement to purchase FHFA-specified amounts of certain single-family and multi-family mortgage loans that support housing for specified underserved borrowers and renters.

Treasury's plan does not include specific recommendations to alter the duty to serve the specified underserved markets or the affordable housing contribution. Treasury seeks to preserve the national service requirement with some added protections. With respect to the fourth mandate, the affordable housing goals, Treasury recommends material changes that would establish a more efficient, transparent, and accountable mechanism for delivering tailored support to underserved borrowers.

Further, the plan recommends that FHFA continue to coordinate with FHA and Ginnie Mae, who have the primary responsibility for providing housing finance support to low- and moderate-income families that cannot be fulfilled through traditional underwriting to assure an efficient and appropriate Federal role for housing.

To be clear, Treasury is not recommending a reduction in support for underserved borrowers. On the contrary, Treasury is recommending a more effective means of delivering the support. I look forward to our conversation here today, one that I hope will continue after this hearing. We welcome your thoughts and suggestions to address the challenges facing underserved borrowers and renters nationwide.

Finally, I must emphasize that our recommendations made clear that the Administration's preference is to work with Congress to enact comprehensive housing finance legislation. Legislation could achieve lasting structural reform, and competitive advantages over the private sector. At the same time, we believe that reform can and should proceed administratively pending legislation.

Under the leadership of President Trump, I am proud of all the work we have done to create conditions for greater economic growth, more and better opportunities for working families, and higher wages. I look forward to discussing with you critical housing finance reform. I hope the members of the committee from both parties will work with us on passing legislation.

Thank you very much. I am pleased to answer any questions.

[The prepared statement of Secretary Mnuchin can be found on page 82 of the appendix.]

Chairwoman WATERS. Thank you.

Secretary Carson, you are now recognized for 5 minutes.

STATEMENT OF THE HONORABLE BENJAMIN S. CARSON, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary CARSON. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to appear before you today to discuss how the Department of Housing and Urban Development is supporting this Administration's efforts to reform the nation's housing finance system. First, like Secretary Mnuchin, I was taken aback by the title of this hearing.

If we really want to examine the end of affordable housing, this would be a field hearing in San Francisco or Los Angeles, two cities at the epicenter of the nation's affordable housing crisis. Restrictive zoning laws have made the development of affordable housing prohibitively expensive there, driving up rent and home prices to some of the highest in the country, and leading to California being responsible for nearly half of our nation's unsheltered homeless population. In fact, HUD's latest data found that California's homeless population increased 16 percent over the past year alone. Were it not for California's increase, homelessness would have declined nationally. Contrary to what is happening in California, HUD's housing finance reform proposal addresses how to best serve affordable housing needs, while keeping within the principles outlined by leaders of both parties, including Chairwoman Waters.

We look forward to working with Congress to move this legislation forward, but I am very confident that we are starting from a place of significant common ground about what a future housing finance system should look like. At HUD, we support millions of families with affordable homeownership and rental opportunities through the Federal Housing Administration and Ginnie Mae, providing credit access and liquidity in the mortgage market. We ought to allow the private market to work, but in those areas where it can't or won't work, we must make certain that we continue to target FHA programs to borrowers not served by traditional underwriting. Our plan preserves and strengthens FHA's and Ginnie Mae's pivotal roles while improving the delivery of that support and better protecting taxpayers.

Historically, serving unmet housing need has been FHA's most important contribution to the American housing market, facilitating entry into financially responsible homeownership. Without FHA mortgage insurance as an option, millions of lower- and middle-income families would lack access to affordable mortgage credit.

Take, for instance, a typical FHA borrower. Last year, they were 39 years old, had a credit score of 666, and purchased a home for $221,000. First-time home buyers represent 83 percent of FHA's purchase volume, while 57 percent of the mortgage endorsements were for low- to moderate-income individuals, and 34 percent were minorities. In addition to helping borrowers buy their first home, we also want them to stay in their homes.

Our plan calls on FHA to improve its servicing by creating more flexible loss mitigation processes. We are also working to get a more diverse base of lenders back into the FHA program; depository institutions, which represented nearly half of FHA's lender base in 2010, today represent just 15 percent. To provide regulatory certainty to lenders so that they will return to offering FHA loans, we are revising FHA's defect taxonomy, updating loan level and annual certifications, and clarifying when HUD and the Justice Department will utilize the False Claims Act to go after allegations of fraudulent lending.

Another critical piece of our plan is the need to modernize FHA technology. For decades, FHA has operated on antiquated, obsolete technology that inhibits its ability to appropriately manage risk. As part of our proposal, FHA has undertaken a comprehensive, multiyear modernization effort to bring its IT infrastructure into the 21st Century.

This is FHA's opportunity to move generations ahead to a state-of-the-art system that will fully digitize the entire mortgage process, and align it with industry standards. Our plan also calls on Congress to eliminate the statutory cap on the Rental Assistance Demonstration (RAD) program which allows public housing agencies and owners to leverage private capital to preserve properties for long-term affordability. Since its launch in 2012, RAD has proven to be an extraordinary success story. A report we are releasing this week confirms what we have long suspected, that RAD is stimulating billions of dollars in capital investments, improving living conditions for lower-income residents, and enhancing the financial health of these critical, affordable housing resources for future generations.

Madam Chairwoman, housing finance reform is the final piece of unfinished business remaining from the financial crisis. It is one of the committee's top priorities, and you have an Administration committed and prepared to work with Congress to enact comprehensive legislation. Let's begin that work today, and Happy Birthday, Mr. Ranking Member.

[The prepared statement of Secretary Carson can be found on page 74 of the appendix.]

Chairwoman WATERS. Thank you very much.

Director Calabria, you are now recognized for 5 minutes.

STATEMENT OF THE HONORABLE MARK A. CALABRIA, DIRECTOR, FEDERAL HOUSING FINANCE AGENCY

Mr. CALABRIA. Chairwoman Waters, Ranking Member McHenry, and distinguished members of the committee, thank you for the invitation to appear at today's hearing. Chairwoman Waters, let me also thank you for that kind introduction and welcome to the committee, as well as thanking you for taking the time to meet with me very early in my tenure. I found that a productive meeting, that I hope is the first of many.

Let me also emphasize for the committee, as was mentioned in my bio, having worked on the staff of the Senate Banking Committee, I am proud that the last piece of legislation I worked on for that committee over a decade ago was an update in modernization of the McKinney-Vento Act, where we expanded homelessness protections for families. I would also note for the committee, having been one of the primary staffers on the Housing and Economic Recovery Act that was the last major housing finance reform, I will remind the committee that we did that in a bipartisan way, and we did it in a bicameral way. And I believe we can do that again today.

Let me emphasize that it is my belief that far too many Americans today lack what each of us deserves: an affordable place to call home, whether it is owned or rented. This is a problem across America in many communities in our country, but as Secretary Carson pressed upon, it is fundamentally, in many ways, a local problem.

A fundamental cause of the housing affordability problem are local policies that make it harder and more expensive to build new housing. Examples include zoning, land use restrictions, onerous building codes, and permitting requirements. These policies disproportionately hurt low-income families. Our affordability problems, while they can be addressed here in part, will not be solved until local governments remove these impediments that limit the supply of affordable housing in their communities. We should, of course, applaud those many communities, for example, Minneapolis, that are upzoning in a responsible manner that will bring more density, and I recognize that many areas in California are trying to address this problem as well.

One part of our mortgage finance system can play a role in this. In fact, all of the parts of our mortgage finance system can play a role, Fannie and Freddie and the Federal Home Loan Banks exist to ensure mortgage credit availability throughout the economic cycle. This mission is critical to supporting sustainable homeownership, and affordable housing, especially when the economy is weak and mortgage credit tightens. But in their current condition, Fannie Mae and Freddie Mac will fail in a downturn.

As we learned in 2008, when Fannie and Freddie fail, housing affordability problems get even worse. Together, Fannie and Freddie own or guarantee $5.6 trillion in single and multi-family mortgages, nearly half of the market. Yet, until very recently, they were limited to just $6 billion in allowable capital. To do the math for you, this—when I walked in the door, the combined leverage ratio at Fannie and Freddie was nearly 1,000-to-1.

Last month, Secretary Mnuchin and I agreed to allow the Enterprises to retain capital of up to $45 billion combined. This is a significant step forward. Retaining just one quarter's net worth has improved their leverage ratio by nearly half. I'm proud to say that in my 6 months, we have doubled the capital at Fannie and Freddie. But it still stands at nearly 500-to-1. In contrast, our nation's largest banks have an average leverage ratio of 10-to-1.

Let me put that in perspective. The leverage ratios that we see at our largest G-SIBs, Fannie and Freddie are leveraged 50 times that. Combined with low capital, credit risk has been increasing in recent years by the purchases by the Enterprises. Some risk factors now exceed the levels observed in the years leading up to the crisis. While average borrower credit scores are better today, the Enterprises' share of low-down-payment and high-DTI mortgages are actually higher than they were pre-crisis.

This procyclical pattern of increasing mortgage risk harms first-time and low-income borrowers, it makes it easier for them to become highly leveraged at the top of the cycle, and it makes it harder for them to keep their home when the cycle turns. Borrower debt to income is a widely used measure of ability to pay; it is actually spelled out in Dodd-Frank. It is adversely impacted in a weak economy when incomes tend to stagnate or decline, and household debt levels will stay the same.

Between 2006 and 2008, the Enterprises have nearly doubled their purchases of loans with debt-to-income ratios greater than 43 percent, higher than that spelled out in the Qualified Mortgage rule.

Yes, market wide delinquency serious rates are low today, but they were low before the crisis last time. They were low in 2004. They were, in fact, low well into 2007–2008. Delinquency rates today are a function of a strong labor market, and rising house prices. If these were to turn, the underlying risk in the system would appear, regardless of loan quality, when there are defaults when the tide turns. And at the current levels of capital, let me be absolutely crystal clear, Fannie and Freddie will fail in a downturn in their current condition. Of course, it is my objective to get them out of this condition.

Our housing finance system is supposed to serve homeowners and renters while protecting taxpayers. I believe it has failed on both accounts. Let me commend my colleagues for coming up with what I believe are reasonable, thoughtful plans that present a path out of this. Let me say, these plans are broadly consistent with my top priorities, which are: first, to cement FHFA as a world-class regulator so as to ensure Fannie and Freddie operate in a safe and sound condition; second, to end the 11-year conservatorships; and third, as required by statute, to "foster a competitive, liquid, efficient, and resilient national mortgage finance system."

Chairwoman Waters, I share the principles for housing finance you laid out at the beginning of this Congress. I look forward to working with this committee as we move forward. Thank you.

[The prepared statement of Director Calabria can be found on page 66 of the appendix.]

Chairwoman WATERS. Thank you, Director Calabria.

I now recognize myself for 5 minutes for questions. Director Calabria, you recently announced that you expect to make a decision very soon about FHFA's proposed capital rule. This rule would be a key factor in determining whether pricing of GSE loans will work for a broad base of future homeowners, or unnecessarily block creditworthy people out of the American Dream of homeownership. As you know, civil rights advocates and others have raised concerns that this rule would increase incentives for Fannie and Freddie to engage in more risk-based pricing, which would eliminate cross-subsidies that help minorities and other underserved borrowers obtain mortgages at affordable rates. There are also concerns that you will require up to 5 percent capital, which many analysts believe to be too high.

Will FHA's final rule on capital levels address these concerns?

Mr. CALABRIA. Chairwoman, thank you for that question. We are in the middle of a rulemaking. I hope to be able to announce within the coming weeks whether we will have to repropose the rule or not. I very much agree with you. I view this as perhaps the most important rulemaking that I will engage in, in my tenure. I think it is incredibly important to get it right. We have been talking to a number of constituencies. As you know, there are a number of factors to balance. I think we are going to try to do our best, and I think we are getting to a point where this will be balanced. I feel highly confident that where we will get will maintain access in affordability but also protect the system.

Chairwoman WATERS. Thank you very much. At what level of capital would you feel that the GSEs are safe to capitalize?

Mr. CALABRIA. Since we are in the midst of a rulemaking, I think it is appropriate for me to refrain from giving specific answers on the rulemaking. Again, we will keep—

Chairwoman WATERS. Do you believe that a higher level of capital would affect the pricing of a mortgage?

Mr. CALABRIA. I believe that if this happens for all large financials—let me start again. I believe all large systemically important financial companies, whether it is Citibank, or whether it is Fannie Mae, should be well-capitalized.

Chairwoman WATERS. I want you to understand that you have an obligation to the taxpayers, but you also have an obligation to ensure broad access to credit for creditworthy borrowers. Your job requires you to strike an appropriate balance between these goals; however, based on what I can see from your actions and comments to date, I am concerned that you are overly focused on shrinking the GSE's footprint, even if it comes at the expense of blocking hardworking families out of homeownership.

So, I would encourage you to thoughtfully consider the feedback that you are receiving from civil rights advocates and others about this proposed capital rule, and ensure that these concerns are addressed in a final rule.

Further, Director Calabria, we met at the very beginning of your tenure as Director of FHFA. And in that conversation, I stressed the importance of working to increase homeownership opportunities for minorities. Sometimes, people conflate minority homeownership with affordable homeownership, and I want to be clear that these are two different things. We have made important strides in opening up affordable homeownership opportunities, but we still have African-American homeownership levels at rates lower than when the Fair Housing Act was passed in 1968, and we have an astonishing racial wealth gap that reflects this gap in homeownership rates.

Do you agree that FHFA has the responsibility to address the racial homeownership gap, and not just access to affordable homeownership generally?

Mr. CALABRIA. First, let me assure you on your previous point that we will work with and take in all comments for all stakeholders, civil rights groups, and others. I can guarantee you that we will meet with everybody and talk to everybody who wants to meet with us and do our best to see that those concerns are addressed. I would emphasize one of the biggest drivers of the increase in the racial wealth gap during the crisis was that low-income minority households had higher leverage ratios going into the crisis and were hurt more in the downturn.

So, I am committed to making sure we do not see a repeat of what we went through in 2008, 2009, and 2010. I believe that was a devastating time for low-income minority communities, and I am committed to making sure that does not happen on my watch.

Chairwoman WATERS. Are you telling me that you have specific actions that you have taken, and actions that you plan to take to increase access to homeownership for minority borrowers?

Mr. CALABRIA. Let me first emphasize that our emphasis on homeownership will be on sustainable homeownership. I think it is critical when we get families into homeownership, that they are able to stay in homeownership. I don't believe we do anybody a favor if they just are chairing through and they lose their house. Foreclosures are devastating—

Chairwoman WATERS. Can you use the word, "minority?"

Mr. CALABRIA. I can use the word, "minority," but I think we want to look out for all families, minority people—

Chairwoman WATERS. I know you are, but I specifically asked you about the wealth gap and the problems that we have with homeownership for minorities. Will you address the word, "minority?"

Mr. CALABRIA. If your—

Chairwoman WATERS. If it is difficult for you, then I will yield my time back.

And with that, I will call on the gentleman from North Carolina, Mr. McHenry, for 5 minutes for questions.

Mr. MCHENRY. Safety and soundness. Safety and soundness to our financial system, to the footprint that the three of you oversee is your primary obligation to us as taxpayers.

Director Calabria, is safety and soundness your primary obligation?

Mr. CALABRIA. Correct.

Mr. MCHENRY. Financial collapse of these institutions on your watch is nothing that the three of you gentlemen would seek, I would hope, nor in the interest of American taxpayers. Let me begin. We have 116 items of reform from the Treasury and HUD, 116 items. They fall into two different baskets: one that you can do through administrative action that is within your right under law that the Congress has written; and the other requires legislative action. Almost a third of all the recommendations in the plan were legislative reforms, 18 from Treasury, and 17 from HUD, from my count.

Given the sheer volume of work that needs to be done to build a modern housing finance system that the American people deserve, how important is it that Congress rolls up its sleeves and legislates here? We will just go across the panel. Secretary Mnuchin?

Secretary MNUCHIN. I think it is very important, and thus, by far, our first choice.

Secretary CARSON. I think it is obviously very important if we want to be able to have things that are sustained across the Administration that help the American people.

Mr. CALABRIA. It's absolutely critical.

Mr. MCHENRY. Director Calabria, Federal Home Loan Bank membership was reviewed under Mel Watt's directorship, and limited. Are you going to seek to have a review of the Federal Home Loan Bank membership requirements?

Mr. CALABRIA. We are. Given that there is a large number of membership questions at different banks dealing with rates and CDFIs and captive insurers, we decided that we will soon be doing a request for information on the membership issue writ large, so we can hear from stakeholders. We can get feedback. Depending on what comes out of that request for information, we may or may not do a rulemaking clarifying this, but I think it is important that we try to solve the membership issue holistically.

Mr. MCHENRY. Thank you. Director Calabria, there is a New York Times piece from September 30th of this year outlining work done by researchers at the University of Montreal and Johns Hopkins University about flood risk via the portfolios at Fannie and Freddie. It outlines that there are some alarming trends, according to the study, that institutions are passing off increased flood risk to certain mortgage properties. They are passing that off to Fannie and Freddie.

Are you familiar with that study?

Mr. CALABRIA. I have read the underlying study, yes.

Mr. MCHENRY. Yes. Madam Chairwoman, I ask unanimous consent to submit for the record The New York Times piece outlining that study.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. MCHENRY. Thank you.

It is an interesting finding that there is a potential six $100 billion sets of risks that are pushed off to GSEs from institutions. You said you are familiar with this. Do you agree with the premise and/or the conclusion?

Mr. CALABRIA. While I can probably take some issue with some of the methodology, I think the overall point of the study is largely correct and really underlines the importance of doing effective reform of the National Flood Insurance Program (NFIP), because I am concerned that if we don't have a functioning, sustainable NFIP, much of that risk will get sent to Fannie and Freddie.

Mr. MCHENRY. Do Fannie and Freddie currently run assessments of the underlying flood risk for their overall portfolio?

Mr. CALABRIA. Not when there is a case if the NFIP is covering that risk. There is generally an assumption, but this is something we have started to look at. We are very concerned about the impact of natural disasters on Fannie and Freddie's risk profile, especially given the fact that they are 500-to-1 leverage, so even something that goes modestly wrong in the environment could leave them underwater.

Mr. MCHENRY. Is there a separate assessment done by Fannie and Freddie using outside data, or is it only NFIP- and FEMA-provided data?

Mr. CALABRIA. If I could follow up with the committee and get some more actual information on what Fannie and Freddie use in terms of outside resources, I would be happy to provide that information.

Mr. MCHENRY. That would be, I think, useful and helpful so we understand the risk here if, in fact, there is serious risk. And what are you doing to ensure that FHA runs these risks, especially given the question of volatility and the relative storm sizes that we have had of the last cycle of storms?

Mr. CALABRIA. We are looking at a lot of the risks. These happened to be coastal areas. There are many that happen to be high-priced areas. There tends to be a lot of price volatility in these areas. We are trying to make sure at this point, particularly given the leverage at Fannie and Freddie, that they can withstand any storms that may come.

Mr. MCHENRY. Thank you.

Chairwoman WATERS. The gentlewoman from New York, Ms. Velazquez, is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman.

Secretary Carson, last week, your Chief Financial Officer and your Principal Deputy Assistant Secretary for Community Planning and Development admitted before Congress that HUD intentionally missed legally required debt lines that would have made congressionally appropriated funds available to Puerto Rico. Let me ask you, where specifically in Federal law is HUD empowered to unilaterally withhold CDBG–DR funds that had been appropriated by Congress?

Secretary CARSON. As you know, Congress has specifically mandated that the Secretary of HUD makes sure that funds that are allocated or provided for certain jurisdictions have the resources and the capacity to manage them.

Ms. VELAZQUEZ. Sir, reclaiming my time, please answer my question. Your Chief Financial Officer testified before the Appropriations Subcommittee on Housing that you withheld funds that were federally appropriated by Congress to Puerto Rico. My question to you is, where in Federal law you are empowered, HUD is empowered, to withhold money that was supposed to go to Puerto Rico?

Secretary CARSON. I can't give you chapter and verse, but it does exist. Congress has specifically said to the Secretary, you may not issue unless you have—

Ms. VELAZQUEZ. Secretary Carson, reclaiming my time, since you are not going to answer my question.

Secretary CARSON. It seemed like an answer to me.

Ms. VELAZQUEZ. Reclaiming my time, your staff previously claimed—

Secretary CARSON. Are you looking for an answer or a sound bite?

Ms. VELAZQUEZ. No, no, no, no, no. Let me give you more background. Your staff previously claimed the agency delayed grant agreements related to CDBG–DR funds to await an ongoing audit byt the Office of the Inspector General (OIG). However, the Inspector General wrote to you in mid-September, and she stated explicitly, and I quote: "I did not recommend that the Department take any specific actions with respect to Vivienda, including withholding funds delaying finalization of grant agreements or delaying publishing Federal Register notices." So if it was not the Inspector General pushing for this delay, I wonder if this was politically motivated?

Did anyone at the White House, including the President or the Chief of Staff, ask you to withhold money that was supposed to go to Puerto Rico?

Secretary CARSON. Interestingly enough, a lot of what we do is dictated by common sense. If you have a jurisdiction in which there are three changes of government within a month, and which has historically had difficulty with financial management, to put an unprecedented amount of money in there without the appropriate controls—

Ms. VELAZQUEZ. That is not the question here, sir. Your IG said that they have taken oversight steps in Puerto Rico. You withheld the money just to Puerto Rico and you know what? The simple answer to this is the contempt of this Administration toward the people of Puerto Rico. This is an abuse of power. It speaks to this Administration's disregard for the people of Puerto Rico.

Three thousand people died in Puerto Rico under your watch. And I will ask for your Administration, HUD, to send to Congress and to this committee every communication related to Puerto Rico. And you know what, sir? We going to find out what motivated you to withhold this money for the people of Puerto Rico. If this was about corruption, as you claimed in the press, deal with your own corruption when FEMA officials were arrested in Puerto Rico.

Secretary CARSON. We have nothing to hide, so I would be glad for you to get that information.

Ms. VELAZQUEZ. Yes. One way or the other, we going to know the truth. My next question to you, sir—well, I will yield back, Madam Chairwoman.

Mr. MCHENRY. Madam Chairwoman, I query the Chair. Unparliamentary language when you are accusing somebody testifying of personal corruption is unbecoming of this institution, and not appropriate in parliamentary language before this debate. Members should be admonished to keep their opinions as opinions, but to accuse a panelist and a Cabinet Secretary of personal corruption is not becoming.

Ms. VELAZQUEZ. No.

Chairwoman WATERS. Excuse me?

Ms. VELAZQUEZ. Will you yield? I am talking about corruption, where two officials of FEMA were arrested in Puerto Rico.

Chairwoman WATERS. The time belongs to the gentleman at this point. Have you finished your point?

Mr. MCHENRY. Yes.

Chairwoman WATERS. The gentleman has finished his point.

Will you yield to the gentlelady from New York?

Mr. MCHENRY. I am happy to yield.

Ms. VELAZQUEZ. Sir, I am referring to two FEMA officials who were arrested in Puerto Rico, and the excuse that had been used by this Administration is that they will not let the money flow to Puerto Rico unless they take steps to make sure that the money is used with the intended goals. However, the IG of HUD, in a letter that was sent to the Secretary of HUD, said that the government of Puerto Rico has complied with everything that was asked of them. And yet, of the 17 States and localities that got disaster relief funds, Puerto Rico was the only one whose money was delayed. Enough is enough. This is about—

Mr. MCHENRY. I reclaim my time, Madam Chairwoman. Madam Chairwoman?

Chairwoman WATERS. The time belongs to the Chair. The gentleman has noted his concerns. They have been responded to and—

Mr. MCHENRY. Madam Chairwoman, they have not been responded to.

Chairwoman WATERS. —the gentlelady was referring to the agency, and if your concern is about language unbecoming a Member, then you should address that to all of the Members at any given time. We have all had language that one could consider unbecoming.

Mr. MCHENRY. Madam Chairwoman?

Chairwoman WATERS. We will move on.

Mr. MCHENRY. To accuse a Cabinet Secretary of personal corruption, which is what the gentlelady did, is not becoming of members of this committee.

Chairwoman WATERS. The gentleman is out of order.

The gentleman from Oklahoma, Mr. Lucas, is recognized for 5 minutes.

Mr. MCHENRY. It is ridiculous.

Mr. LUCAS. Secretary Mnuchin, let's return to Treasury's plan that lays out several conditions to meet before ending the conservatorship of the GSEs. We have touched on capital requirements here this morning. I think, in an indirect way, we have discussed ensuring that there is no market disruption. Can you expand for a moment on the timeline the Treasury is looking at to meet these conditions, and to, perhaps, end the conservatorship?

Secretary MNUCHIN. Thank you. It is a pleasure to have a question on this subject. First of all, I think as we have addressed, these bipartisan concerns are something that need to be addressed before we take these entities out of conservatorship. The first step was, Director Calabria and I amended an agreement to make sure that the entities could retain capital. A critical part is to make sure there is proper capital before we would consider ending conservatorship.

Mr. LUCAS. The plan also recommends reforms to protect the U.S. taxpayer. Could you expand on what reforms are needed to ensure that shareholders, not taxpayers, bear the losses during any potential future downturn?

Secretary MNUCHIN. I think the first issue is, again, to make sure we have proper capital, and the second issue is to make sure that the Director has appropriate reforms and that there is proper underwriting and proper allocations.

Mr. LUCAS. And, again, one more time, you would envision a time line of this happening—

Secretary MNUCHIN. I want to be careful in speculating, but I would hope that it is over the next 1 to 2 years. And, again, it could be quicker or longer, depending upon market circumstances.

Mr. LUCAS. Thank you, Secretary.

Secretary Carson, the HUD plan indicates that actions should be taken to remove barriers to further adoption of manufactured housing. Like my colleagues here, I am very sensitive about my constituents too, and manufactured housing is particularly important in the rural communities that I represent in Oklahoma.

Can you elaborate on how HUD can move forward in eliminating those regulatory barriers?

Secretary CARSON. Thank you. That has been a subject of great concern for us. As you know, in rural communities, particularly, manufactured housing accounts for about 20 percent of all the single-family housing, and yet a lot of the regulations that have been in place treat manufactured housing as trailers and double-wides, when, in fact, there has been tremendous progress made with manufactured housing.

I think at this stage of the game, in many cases, you would not be able to distinguish manufactured housing from a site-built home, and they tend to be much more resilient. And, therefore, it is really an updating that needs to be done and we have concentrated a lot of effort on that, and are making extremely good progress. And I think it is one of the areas where we can make a lot of progress with affordable housing, because you are talking about things that cost considerably less than site-built homes.

Mr. LUCAS. And for many of my constituents, it is the entry level housing opportunity.

Secretary CARSON. Exactly.

Mr. LUCAS. With that, Madam Chairwoman, I yield back the balance of my time.

Chairwoman WATERS. Thank you.

The gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Director Calabria, following the 2008 financial crisis, our Financial Services Committee helped enact mortgage reforms under Dodd-Frank, and I would like to get an understanding from you of exactly where we are. As I mentioned earlier in my opening remarks, we are now at the 10-year anniversary of Dodd-Frank. It doesn't seem like 10 years, but it is about time we kind of look back and see where we are now after 10 years in the critical housing area. What is the current default risk in each of the GSE's portfolios?

Mr. CALABRIA. First, Congressman Scott, let me say how much I very strongly agree with you. I think this is an incredibly appropriate and important time to take a look back. The most serious delinquency rates for Fannie and Freddie are respectively 0.67 percent and 0.61 percent. I will note that these were similar to what they were at the beginning of 2008. So, again, there is an old adage that the worst loans were made in the best of times. I think we should keep that in mind today.

Mr. SCOTT. Let me ask you, how does that risk compare to the default risk and the GSE portfolios in the latter stages of previous economic growth cycles?

Mr. CALABRIA. Certainly over time, there has been a trend increase. If one goes back, say, to the 1960s or 1970s, my recollection is that the default rates were significantly lower than they were in the last previous cycle. Certainly, the last cycle was an elevated level of foreclosure, elevated level of delinquencies; obviously, in the part of all market participants, but also with the GSEs, and hence, my concern about if this cycle turns with my concern on whether the GSEs are ready.

Mr. SCOTT. It is very good to get your points on this as we look back after 10 years. Let me follow up with this: There has been a lot of focus recently on debt-to-income ratio, given the impending expiration of the QM, or qualitative mortgage patch.

Director, do you feel that the debt-to-interest deal profile of the DTI profile of the GSEs portfolios, when taken in isolation, is a good measure for us to determine default risk?

Mr. CALABRIA. I would start out recognizing that the debt-to-income ratio was explicitly mentioned in Dodd-Frank. It is explicitly mentioned. It is, perhaps, the best measure of ability to pay, rather than willingness to pay, and so I do think it is an important factor. I would, of course, be the first to say that borrower credit and loan to value are stronger predictors of default, but again, we will note that Dodd-Frank specifically lists out a set of factors to be considered within the statute.

Mr. SCOTT. The very highly respected Urban Institute found, in a recent study, that borrowers with DTI ratios above 45 percent had higher default rates than those below 45 percent. Buyers before and during the financial crisis, but—but high-DTI borrowers have actually had lower default since 2011, as I am sure you know. With that in mind, is debt-to-income the right measurement of underwriting quality?

Mr. CALABRIA. Certainly, with appropriate overlays, I think you can offset that risk, and if that is where the gentleman is going, I would certainly be very supportive of Congress revisiting, having that DTI mandated within the statute. I certainly think it is past time to re-evaluate the effectiveness of the Qualified Mortgage rule.

Mr. SCOTT. Thank you. Secretary Carson, I can't let this opportunity escape for you to answer us. Do you have, in your own opinion, a full grasp of the impact of homelessness in this nation? Do you? And what are you willing to say about it? You are the person who is at the point of the sphere in our Federal Government to deal with homelessness.

Secretary CARSON. I have had a lot to say about it.

Mr. SCOTT. Unfortunately, the chairwoman has brought the hammer down, but I certainly look forward to hearing what you have to say.

Chairwoman WATERS. The witness is requested to provide an answer in writing for the record.

The gentleman from Florida, Mr. Posey, is recognized for 5 minutes.

Mr. POSEY. Thank you very much, Madam Chairwoman, and Ranking Member McHenry, for holding this hearing today on the Administration's plans for reforming Fannie Mae and Freddie Mac. It is an important subject, and I regret that it has fallen to levels of personally denigrating Secretary Carson, asking him questions and not allowing him time to answer them. I and many, Secretary Carson, think you have done an outstanding job for our country. I have said it before to you, I don't know why in the world you would take a job with all you have to lose and nothing to gain. And I know it is for the betterment of our country and our government and the people and how the people live in this country and I am eternally grateful to you. I would like to give you a few moments, if you would prefer, to respond to the questions that you were not allowed to answer when they were asked.

Secretary CARSON. Yes.

Mr. POSEY. You had to be still while they threw some more insults your way, but if you would like to take time to respond now, you have that time.

Secretary CARSON. Yes. I appreciate that. Obviously, the reason I took this job is because I feel that our country is in trouble, and we need to do everything we can to provide the right kinds of opportunities. HUD, for instance, is an organization that was largely focused on just getting people into programs, getting people under roof, and that is not a bad thing, but I really want to maneuver us to a place where we are getting people out of programs, and getting people to a level of self-sufficiency, so we have really aimed at that.

The question that was asked about homelessness, this is a very serious problem, and one that I think is solvable in our country. If a place like Tokyo, which has more people than New York City, can solve homelessness, then certainly we have the capacity to do so, too. But we really must understand the reasons behind the homelessness. There is a direct correlation with the amount of regulatory barriers, home prices, apartment prices, and homelessness. And we need to be willing to face that.

We can't solve this problem by just throwing money at it. We really have to look at the ideology of the problem and deal with the zoning restrictions, deal with the noise restrictions, with the density requirements, with all of the many regulatory barriers that cause the crisis to go where they are. And this is something that is a problem for Democrats, for Republicans, for independents, for everybody, and we need to stop making everything into a political argument, and fussing and fighting like 3-year-olds and spend time actually sitting down and talking together.

I looked at the tenets that the chairwoman has placed. They are exactly the same ones that I agree with, the same ones that we are working with, and yet we have not been able to sit down and talk about it. I think we need to be able to discuss these things. We are intelligent people. We can solve these problems. Sitting around demonizing each other makes absolutely no sense whatsoever, and will not result in any progress.

Mr. POSEY. Thank you.

You were also—speaking of the word "demonized"—demonized for, if I understood the words correctly, making sure that the money sent was spent as Congress intended for it to be.

You were cut off before you could explain that.

Secretary CARSON. First of all, I would like to explain that in Puerto Rico, they do have access to $1.5 billion, and about $2 million of it has been drawn down. So, I don't want anybody to be under the impression that they are having a crisis that can't be resolved by utilizing the money that is already available. Normally, it takes somewhere between a year-and-a-half to 3 years to spend that much money.

Having said that, the money for unmet needs and mitigation will be gotten to them as soon as possible in a way that is safe, with a Federal monitor in place.

And we would do that for virtually anybody. This is the largest amount of money that has been given to any jurisdiction in the history of HUD. And I think we have an obligation to the taxpayers to make sure that it is properly utilized to impact, in a positive way, the people of Puerto Rico.

Mr. POSEY. Secretary Carson, do we have your assurance that we are doing everything humanly possible, through your agency, to assist the people in Puerto Rico?

Secretary CARSON. Absolutely. And that is one of our highest priorities.

Mr. POSEY. Thank you, sir.

Chairwoman WATERS. The gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on National Security, International Development and Monetary Policy, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman.

I, actually, am deviating from the affordable housing issue, because I have two people here—and I would like to deal with the Opportunity Zones and housing, because I have the Treasury Secretary and the HUD Secretary.

But because of what we have on our agenda tomorrow, an examination of Facebook, I am going to deviate a bit. Secretary Mnuchin, thank you for the response to my letter. And I thank you for proactively probing the issue of Libra. And I want to lift just a little section of your letter and ask for a little bit more on it.

Your letter says FSOC's working group on digital assets is, "monitoring the development related to the Libra project, is working to identify and assess potential risks and gaps in authorities that may require more attention."

Can you go just a little further on that, Mr. Secretary?

Secretary MNUCHIN. Yes, absolutely. And, first of all, thank you for your interest in this subject. I do understand the diversion. It is an important subject. And we spent a lot of time on this, and we look forward to working with you.

I have met multiple times with the representatives of Facebook. We have told them that we thought that their launch was premature, that they had not addressed fundamental issues around money laundering, BSA requirements, and other. We have set up a subcommittee of FSOC not just to address this, but to address other crypto assets, and make sure we have the proper regulatory. We are working on an intra-agency basis, I think, very effectively. I also concluded meetings last Thursday and Friday in D.C. with our International Central Bank governors and finance ministers. This is a discussion that is going on at the G-20, the G-7, and FSB as well.

Mr. CLEAVER. Thank you.

Is the FSOC working group going to assess systemic risk and apply whatever appropriate regulations are needed?

Secretary MNUCHIN. Yes. That will be one of the issues, amongst many, that we will look at.

Mr. CLEAVER. Okay. Your letter implies that the financial institutions participating in the Libra network may be an avenue through which FSOC regulates Libra.

Is my interpretation correct?

Secretary MNUCHIN. That is correct.

Mr. CLEAVER. Do you think that financial regulators have sufficient tools now to confront the potential systemic risk associated with Libra?

I don't want to be Cro-Magnon man or troglodytic, but this kind of frightens me, this whole issue with Libra. It is unclear whether U.S. and foreign regulators will have the ability to monitor the Libra market and require corrective actions, if necessary.

Secretary MNUCHIN. I think right now in the United States, we do have the proper tools. But if we need more tools, we will come back to Congress.

My concern is more internationally, and we are working through the international organizations to make sure that they have the similar standards that we use within the United States to combat terrorist financing.

Mr. CLEAVER. Okay. Mr. Secretary, I was excited about the Opportunity Zones. I still am semi-optimistic and excited. But the response has not been what I thought it would be. And it seemed to me that it was perfect for housing because of the 10-year period when we are talking about capital gains tax being forgiven. But it is just not turning out—the activity is not turning out at a level that I had anticipated. And I don't know what the national picture looks like, but can you address—is there a need to tweak it, or what do we need to do to get a greater response?

Secretary CARSON. I think one of the things that will be helpful is for us to make known to individuals what is actually happening. You look at some of the projects that are going on in Miami. In your own area, there is a very nice project going on across the country, and we are in the process of putting together, on the website, information so that that can be disseminated.

Mr. CLEAVER. Thank you.

Madam Chairwoman, I ask unanimous consent to insert this letter from the Secretary into the record.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. CLEAVER. Thank you.

I yield back.

The gentleman from Missouri, Mr. Luetkemeyer, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

And welcome, panel.

I would like to start with Secretary Mnuchin.

Mr. Secretary, last week, I sent you a letter—I hope that you were able to receive that—with a group of 28 bipartisan Members of Congress urging you to request a CECLstudy from the Office of Financial Research (OFR). The letter outlines the statutory requirements of FSOC (the Financial Stability Oversight Council) and OFR, which is to examine issues that could affect financial stability.

I have discussed this with many members of FSOC. They tell me they are supportive of that position. Every Federal agency would do a study, and in order to be able to issue a ruling, it is required by the Administrative Procedures Act, and yet FASB has not done that.

To me, this particular accounting standard is probably the seminal issue of this committee, I think, for this next several months from the standpoint of what it could do, I believe, to the economy, the housing industry.

I guess my question to you this morning is, have you received the letter, and are you willing to ask OFR for a study?

Secretary MNUCHIN. Thank you. I have received your letter. I appreciate your interest in this subject. It is an important subject. We have talked about this subject several times at FSOC. There are certain delays in implementation. And I will be discussing your request at the next FSOC meeting to see if the committee thinks we should do this, as you have said. But thank you for your interest.

Mr. LUETKEMEYER. I appreciate that. To me, again, I think this is an enormous issue. I think it is going to affect these other two gentlemen here in the way they manage their agencies.

Secretary Carson, you stated a while ago that 57 percent of the loans that FHA has are low- to moderate-income; is that correct?

Secretary CARSON. Yes.

Mr. LUETKEMEYER. What is the total percentage of loans—out of the loans that are all made this year, what is the percentage that FHA would be involved with?

Secretary CARSON. The total percentage of loans that FHA is involved with, did you ask?

Mr. LUETKEMEYER. Of the total loans made this year, what percentage would the FHA be involved with? So if there are 100 loans made this year, how many loans would be FHA-involved?

Secretary CARSON. I think I would maybe see if Director Calabria might have the answer to that.

Mr. CALABRIA. I don't have the number in front of me, but my recollection of the market share, certainly the first-time buyer market, particularly FHA, I think is close to half, 40 to 50 percent. They are probably about a third of the overall market, is my recollection. Of course, we can get the data for you.

Mr. LUETKEMEYER. Mr. Calabria, what is the percentage of low-to moderate-income for you?

Mr. CALABRIA. First of all, I think if you want the bigger picture, you combine Fannie and Freddie and FHA, you are getting between 80 and 90 percent. And this is really a point that I would emphasize that is different from pre-crisis. Almost all of the mortgage risk in the market today is being backed either directly or indirectly by the taxpayer. And let me emphasize, I don't believe the taxpayer has ever been more exposed to the mortgage market at any other time in American history than they are today.

Mr. LUETKEMEYER. Okay. My question, though, is on low- and moderate-income. Do you have a percentage—85 to 90 percent of the market is through you two individuals and your agencies. What percentage of the—Secretary Carson said, well, 57 percent. What do you think the total would be?

Secretary CARSON. 34 percent of what we do is for minorities. And as was mentioned before, low- and moderate-income, about 57 percent.

Mr. LUETKEMEYER. Okay. Would that be the totality, then, of what you are looking at, Mr. Calabria, for your agency as well?

Mr. CALABRIA. Yes, although I will certainly emphasize that the footprint in low- and moderate-income minorities is much higher in FHA than it is for Fannie and Freddie.

Mr. LUETKEMEYER. Okay. What is the source of revenue—what is the source of income for Fannie and Freddie, g-funds?

Mr. CALABRIA. Primarily, g-fees with some modest portfolio earnings. They engage in portfolio activities where, of course, they will sell debt, buy assets, and earn interest on that.

Mr. LUETKEMEYER. Secretary Carson?

Secretary CARSON. Our money comes from the financial activity, the loans that are made, the fees that are collected.

Mr. LUETKEMEYER. So if you have to increase your capital, if you have to increase your ability, especially Mr. Calabria's position here, and Secretary Carson as well, I guess—have to increase your position to be able to absorb losses, as we just said, is 500-to-1—in my world, when I was a banker, I would go apoplectic as an examiner. This can't happen.

If your only revenue source is g-fees or loan fees, it would seem to me that you have to raise those fees in order to be able to handle the additional reserves it is going to take to handle this. Is that correct?

Secretary CARSON. I was just going to say, of the entire market, FHA is not 50 percent. It is like 14, 15, 16 percent.

Mr. LUETKEMEYER. Okay. My question, though, is for Mr. Calabria. You are going to have to raise g-fees, in my mind, to be able to raise your capital, is that correct?

Mr. CALABRIA. I will emphasize that we have been setting g-fees in the past based on, if you will, shadow an amount of capital under—

Mr. LUETKEMEYER. Thank you.

Chairwoman WATERS. The gentleman from Illinois, Mr. Foster, is recognized for 5 minutes.

Mr. FOSTER. Thank you, Madam Chairwoman.

I would like to actually pick up on this as a question of setting the g-fees and the profits we have been—where it goes.

Now, prior to the changes that you are in the process of making for the profits sweep, where did the profits end up?

Mr. CALABRIA. They were swept to Treasury.

Mr. FOSTER. So, the U.S. taxpayer got the benefit of those. Now, after you make the changes, whose pocket does it end up in at that point?

Mr. CALABRIA. It builds capital at the GSEs.

Mr. FOSTER. It is the shareholders of the GSEs that retain that?

Mr. CALABRIA. No. It builds capital at the GSEs to protect the taxpayer, in case the GSEs become insolvent.

Mr. FOSTER. And the shareholders of the GSEs will then be able to sell those—

Mr. CALABRIA. I will note the obligation, so in the letter agreement that we recently signed, there was an increase of Treasury's liquidity preference at the same time that there was an increase in capital. So the taxpayer is being protected here.

Mr. FOSTER. But where do the profits—I mean, the GSEs are very profitable. And depending on where you set the g-fees, what the mortgage standards that you eventually settle with, that will have a huge effect on their profitability. And so you will be in complete control of the profitability of the successor GSEs or any new competitors as you privatize the business.

Mr. CALABRIA. First, let me emphasize, by statute, they already are private shareholder corporate entities, so there is no privatization. They already are private. That is what the law says. I am following the instructions that are given me, by Congress, to get them out of conservatorship. That is what the law says. That is what we are doing.

Mr. FOSTER. Okay. But now when they failed—we all have to recognize that these would not exist had the taxpayer not bailed them out during the crisis. And during a comparable crisis in the future, these entities, or any comparable new entities that you are contemplating, will be bailed out simply because you can't let the housing market implode in a comparable situation, correct?

Mr. CALABRIA. Correct, which is why it is important to have strong capital.

Mr. FOSTER. Right. And it is also why the government has to figure out how to charge how much for this guarantee?

Mr. CALABRIA. Congressman, let me assure you, I believe in the amount of time it would take us to build sufficient capital to get out, that this body will have significant time to be able to legislate a different path forward, if you so choose.

Mr. FOSTER. Okay. My difficulty is that your decision to do this and other decisions you are making is having a huge effect on the share prices at which they are traded.

Now, let's talk a little bit about those shares. It was well-documented in the Senate's permanent subcommittee investigation that hedge funds, such as Paulson and Company, designed CDOs and other securitized products to fail and that these same hedge funds then blocked shares in the zombie GSEs for pennies on the dollar after the government had bailed out Fannie and Freddie. And what's more, some of those principals at those hedge funds, including John Paulson, have served on advisory committees to the President on this very issue.

My question is, I guess, to Secretary Mnuchin, what sort of conflict of interest vetting took place to conclude that that was appropriate?

Secretary MNUCHIN. First, let me just explain that the Treasury has a giant obligation that needs to be paid back.

Mr. FOSTER. I just want you to describe the conflict of interest vetting.

Secretary MNUCHIN. I understand. But you are saying a premise that these shareholders are getting a benefit of a sweep and—

Mr. FOSTER. Has the trading share price gone up?

Secretary MNUCHIN. I don't really look at the share price one way or another.

Mr. FOSTER. All right. Could you get back to us on that in case you are unaware of it?

Secretary MNUCHIN. As it relates to any conflicts of interest at Treasury, we have full—

Mr. FOSTER. Okay. To the entire Administration and everyone who is making the decisions about the shareholder sweep, I guess that applies, too.

Director Calabria, do you have anything to say about that?

Mr. CALABRIA. Let me first say I very much am on the record over the years in saying in 2008, what we should have done is wiped out the shareholders.

Mr. FOSTER. I agree completely. But that should be your guiding principle going forward instead of putting more money in their pockets.

Mr. CALABRIA. If the circumstances present themselves to where we have to wipe out the shareholders, we will.

Mr. FOSTER. I look forward to that.

However, I was concerned that on October 10th, you participated in an event at George Mason University where you commented that FHFA was looking at ways for Fannie and Freddie to increase their return on equity, which would presumably increase the amount that was eventually going into the shareholders' pockets.

It is completely unclear to me who you are actually working for here, when you make that kind of statement.

Mr. CALABRIA. I am working for the taxpayer, sir.

Mr. FOSTER. Then why are you concerned about the return on equity—

Mr. CALABRIA. Because we need to build—

Mr. FOSTER. —which ends up in the shareholders' pockets?

Mr. CALABRIA. Because these entities are leveraged 500-to-1. It is essential to build capital now before a downturn.

Mr. FOSTER. If you aren't planning on privatizing them. Really, I agree completely that we should have and that we should still wipe out these shareholders, and I look forward to working with you on that.

Thank you. I yield back.

Chairwoman WATERS. The gentleman from Michigan, Mr. Huizenga, is recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Madam Chairwoman.

Mr. Calabria, I just wanted to make sure that you were able to wrap up what your thoughts were on the g-fees that sort of extended over the last two questionings.

Mr. CALABRIA. Thank you, Congressman.

I would really emphasize, and I certainly hope that we never see another downturn to the housing market, but I believe it is my responsibility as a financial regulator to hope for the best, but plan for the worst, and having witnessed the devastation that this impacts on families and communities, that I think it is absolutely critical to get Fannie and Freddie in a condition where they can survive a downturn. And that requires building capital as soon as possible.

Mr. HUIZENGA. Okay. So, FHA has sort of attempted to grow its way out of some of the fiscal problems and displaced private capital, and has expanded, really, taxpayer risk, correct?

Secretary Carson or Director Calabria?

Secretary CARSON. We are not trying to necessarily grow our way out of risk. FHA really acts sort of as an accordion to make capital available and credit available in times of economic distress.

Mr. HUIZENGA. So it should be countercyclical?

Secretary CARSON. Yes.

Mr. HUIZENGA. Okay. But I think we are not seeing that right now, are we?

Secretary CARSON. I think we are. I think at the time of the height of the crisis, FHA expanded enormously.

Mr. HUIZENGA. Sure, yes. I wholeheartedly agree with that.

What I am concerned about is how do we make sure we get private risk back into the system? That is what I am really trying to drive at.

Secretary CARSON. Yes, and one of the things that you probably noticed in our plan is maybe having some tiered-risk type phenomena whereby we make the contracts based on the risk factors that are involved, rather than just having a one-size-fits-all model.

Mr. HUIZENGA. I am puzzled by some of my colleagues who seem to think that we ought to declare everybody has a 720 FICO score and that we should treat all debt and all mortgages the same, and there shouldn't be any sort of risk analysis, yet we are going to castigate you for having risk in there. And it sounds like a have-your-cake-and-eat-it-too kind of a scenario in many ways.

And I guess that is what I am trying to drive at, is what are the key components of a market infrastructure that need to be in place to incent that additional private capital to enter into the marketplace?

Director Calabria?

Mr. CALABRIA. If I could make a point—and I really want to emphasize that I think the important question that Congressman Scott asked for QM, part of this is getting the rest of the regulatory playing field level. So, A, getting to a Qualified Mortgage rule that works for all lenders. I think it is also important that the SEC gets to a reg AB that works for securitization.

And so, part of the reason that so much of the risk has gone to Fannie and Freddie and FHA is that Fannie and Freddie and FHA have been exempted from so many of the rules that all other market participants have to live under. I think it is critical that we get to a level playing field where smaller entities, or any entities across the spectrum, can all compete in a level, fair playing field.

Mr. HUIZENGA. And that takes greater standardization, correct?

Mr. CALABRIA. Correct.

Mr. HUIZENGA. Okay. I am going to quickly—I have about a minute-and-a-half here.

Director Calabria, you have said many times your agency needs to be not only a conservator, but a regulator. And just how can you accelerate those goals here in the next—because I am worried—number of areas that Fannie and Freddie are actively engaged in activities, not necessarily served by the primary mortgage market and not consistent with what congressional charters have laid out?

Mr. CALABRIA. Thank you, Congressman. Really, really great question.

Let me emphasize, historically the agency within conservatorship has used conservatorship as a substitute for regulation. One of the things that we are doing is going through, for instance, the directives that have been issued in conservatorship, in thinking about what we need to be able to do in supervision. We are very close to reviewing and examining the supervision team. If we need to bring on more resources, we will bring on more resources. But we need to be able to strengthen the supervision of the regulatory function at Fannie and Freddie before they get out of conservatorship.

Mr. HUIZENGA. And so, it is a natural time to do that review?

Mr. CALABRIA. Absolutely.

Mr. HUIZENGA. Okay. One last thing here in my remaining 30 seconds, just about GSE multifamily lending that Fannie has been very involved in, this DUS lender model, which is a risk retention model. And I believe you have some rules that have been proposed, so I am not expecting answers on that.

But I am curious, what economic analysis did FHA perform to justify the capital requirements?

Mr. CALABRIA. There is, as you mentioned, a part of the capital rule that applies to the GSE's multifamily business, and we are closely looking at that as we make final decisions moving forward on what we should do on the capital rule. But as you have noted, since we are in rulemaking, I can't go into detail on that today.

Mr. HUIZENGA. All right. Thank you. I yield back.

Chairwoman WATERS. I would like to announce that I intend to adjourn this hearing shortly after votes are called on the Floor. That will likely occur around 1:15 today.

The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is recognized for 5 minutes.

Secretary CARSON. Madam Chairwoman, I request a 5-minute break.

Chairwoman WATERS. You are excused for 5 minutes.

We will recess for 5 minutes.

[brief recess]

Chairwoman WATERS. The committee will come to order.

The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is recognized for 5 minutes.

Mrs. BEATTY. Thank you, Madam Chairwoman, thank you, ranking member, and thank you to the three witnesses today.

Madam Chairwoman, let me start by saying, I don't know why any of my colleagues on the other side of the aisle or any of our witnesses or panelists here today are shocked by the title of this hearing.

First, let me say, if I could, affordable housing advocates have broadly criticized your plans to overhaul the housing finance system, especially the proposal to get rid of affordable housing.

Also, if I look at the statements that you have made, starting with you, Mr. Director, that too many Americans lack what each of us deserve, an affordable place to call home, whether it is rented or owned. The national problem that exists in communities across the country is affordable housing.

You then further say, our housing finance system is supposed to serve homeowners and renters while protecting taxpayers. Currently, it fails on both counts.

This Administration says the plan will not raise costs of homeownership or decrease access, but affordable housing experts disagree with that.

Secretary Carson, you said far too many Americans who seek reasonably priced rental units or sustainable homeownership still cannot get their foot in the door. You further say, many of our nurses, construction workers, police, et cetera, et cetera, simply can't afford to live around the communities they serve.

So you will have to forgive me for taking the side of affordable housing advocates and experts over the words of this Administration, which has continuously asked to slash the budget of affordable housing by more than almost 20 percent every year since coming into office.

Secretary Carson, when the three of you were on the panel in the Senate, you stated that you do not believe these plans will increase costs of homeownership or decrease access to mortgage credit. I can't accept this belief. Because as I have said before, I have dozens of organizations who have called my office saying this will do the exact opposite of what you believe, and will actually raise costs of homeownership and make it more difficult for creditworthy borrowers to unlock the American Dream of homeownership.

What analytical data do you have, Secretary Carson? What studies, cost-benefit analysis, to back up these beliefs? And have you run any other kind of empirical analysis on the impact of U.S. mortgage market and the U.S. consumer based on the reports?

Secretary CARSON. Okay. Which specific aspect are you talking about? Which studies are you looking for?

Mrs. BEATTY. In the studies that you all presented to the U.S. Senate, there were documents in response to President Trump about your housing proposed plan.

Secretary CARSON. I can tell you that the proposals that we are advocating for are to increase the ability, particularly of underserved communities, to be able to have housing.

Mrs. BEATTY. And let me reclaim my time. I guess what I want to hear is, not your beliefs or not what you feel. What did you base it on? Empirical data, analysis? Talk to me in a way that this is why we are doing it, because this is what the reports, this is what the data shows. It is the same thing, that the people were saying the opposite. They come into my district, my office, and they give me data showing that we have a real problem here, and thus the reason for the title.

Secretary CARSON. The National Association of Home Builders, for instance, has data demonstrating that the cost of a single-family house, a new one, has had a 25 to 27 percent increase.

Mrs. BEATTY. Let me ask you this, only because—and I want others to jump in—the Federal Housing Administration is responsible, as you probably know, or should know, for nearly half of all of the mortgages accessed by African Americans and Hispanics.

Are you recommending moving forward with plans to overhaul this agency and its functions without empirical data?

Secretary CARSON. We have plenty of empirical data. We are happy to supply that to you. But the point being, one of the reasons that there is a big wealth gap is because of housing. And we are looking—

Mrs. BEATTY. Do you have a plan that you can submit to me? Because my time is going to run out.

Let me ask you a last question. Is this plan calling for GSEs to get out of the business of low-down-payment loans? Yes or no? All three of you, quickly.

Secretary CARSON. We are.

Mrs. BEATTY. Yes or no. Just yes or no. My time is clicking. Come on.

Secretary CARSON. I can't answer it yes or no.

Mrs. BEATTY. How about you, Secretary Mnuchin?

Secretary MNUCHIN. That is a decision of the Director. I don't supervise him.

Mrs. BEATTY. And he refuses to answer or doesn't have an answer.

Thank you. I'm sorry. My time is up.

Chairwoman WATERS. The gentleman from Ohio, Mr. Stivers, is recognized for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman.

And I want to thank you for holding this hearing. We are, as I said in my opening statement, 11 years into the conservatorship of Fannie Mae and Freddie Mac. We have seen reform proposals from the House, from the Senate, from Republicans, and from Democrats, and I think it is time that we try to do some bipartisan work together.

I want to ask the witnesses a few questions. Have all of you had a chance to see Chairwoman Waters' housing finance reforms principles? A couple of you have commented that you already support them.

Secretary MNUCHIN. Yes, we do support them.

Mr. STIVERS. You are the only one who hadn't said, Mr. Secretary, so thank you.

All three of you, can you just affirmatively tell me that you actually are okay with the principles that the Chair has put out?

Secretary CARSON. Very much so.

Mr. CALABRIA. Yes.

Mr. STIVERS. Thank you. So, all three of you have said you are okay with the principles that the Chair has put out. And, again, from your written testimony and what I have seen of your previous comments, do all three of you prefer a congressionally worked-out, bipartisan housing finance reform proposal to administrative action?

Secretary MNUCHIN. That is correct.

Mr. STIVERS. Can you all three comment?

Secretary CARSON. Yes. Obviously, as I said earlier, if we have something that is worked out on a bipartisan basis and—

Mr. STIVERS. That was my question, yes, bipartisan.

Secretary CARSON. And since we agree on the basic principles, that should be possible if you take the politics out of it.

Mr. STIVERS. That is where I am trying to go.

Director Calabria?

Mr. CALABRIA. Let me say yes. And also, I don't envision myself doing anything administratively other than carrying out the law as it is written today.

Mr. STIVERS. Thank you, Director.

Would the three of you and your teams be willing to work in a bipartisan working group on housing reform, with Republicans and Democrats from this committee?

Secretary CARSON. Absolutely.

Secretary MNUCHIN. Not only would we be willing to, we want to, both across the House and the Senate, so we can get legislation to the President to sign.

Mr. CALABRIA. We would be delighted to.

Mr. STIVERS. Thank you. So in 2 minutes, we have established that, frankly, you all three agree with the principles that the chairwoman has laid out on housing finance reform—I also don't have any problem with the principles—and that you prefer congressional action, and that you are willing to work with us.

I know that is going to make some of the skeptics around town feel like it is not true. But I think really we agree on more than we disagree on. We all want to look out for housing availability and affordability, and we all want to protect the taxpayers, whether that is Republicans or Democrats. Regardless of where we are from, we bring our own unique perspectives based on the geography we represent, and the people we represent, and those economic and housing conditions.

But I do believe that we can work together to make meaningful bipartisan reforms of our housing finance system. And this is the only piece is that left undone from the crisis. We have an obligation to the citizens of the United States to work in a bipartisan, bicameral basis with the Administration to actually try to come up with things.

Like I said, I think the chairwoman's principles are acceptable to me. I am willing to start there and work.

And I would ask the chairwoman to please take this offering of trying to work together, and let's see if we can't do something, because it is time to make something happen.

Not only are taxpayers on the hook right now, but we aren't doing everything we can do to make affordable housing work for people and take away the differences between populations. I know that there is, in some minority communities, including the African-American community, a lower percentage of homeownership than I want, than you want, and than I think these witnesses want.

I think we can and should try to work together. And I am hopeful that we can, and I am going to roll up my sleeves as the ranking member on the Housing and Insurance Subcommittee—I know there is a lot more than in the name, but let's focus on the housing piece—and let's try to make something happen. And I want to work with the three of you and your teams and the Chair and Republicans and Democrats.

And I appreciate you being here today. I know there are, sometimes, tough questions, but I know the three of you believe in making the housing system and the housing finance system in the United States the best in the world, the most affordable and available in the world for the American Dream. And I want to work with you and the members of this committee, Republicans and Democrats, to make that happen.

Thank you for your commitment, and thank you for your willingness to do that.

I yield back the balance of my time.

Chairwoman WATERS. Thank you. The gentleman yields back.

The gentleman from California, Mr. Vargas, is recognized for 5 minutes.

Mr. VARGAS. Welcome. And again, thank you very much, Madam Chairwoman, for this hearing.

I do want to again thank the gentleman for his words there. I think that they were very appropriate. Thank you.

I do have to say, though, we do have a little bit of short memories around here. I do recall to the ranking member, it might be instructive if we go back and take a look at the record of some of the comments that were made in previous years about the Director of the CFPB from your side of the aisle and to take a look at the words that were said and just to make it even on both sides. I think that would be—

Mr. MCHENRY. And if the gentleman will yield, I think that is a fair analysis, a fair and level-headed analysis, something that we should all note, including me, and I thank you for raising that.

Mr. VARGAS. Thank you.

And then I would like to ask, talking about both sides, it is interesting—I get to walk a lot of precincts, and talk to a lot of people. And the American Dream is still the same, most people want a safe place for themselves, and for their family. They want their kids to do a little bit better than they did. And most people want to own a home.

I think that is changing in California, the type of home. Not a single-family detached home, but now an attached product, especially millennials, they are looking at different types of living arrangements. I think that is all very appropriate. But it is still the same. They want a place of their own.

And they also don't understand why, when things get a little rough and tough in the economy, and they have a hard time paying for their home, they don't get bailed out and the big banks do. Why don't they get the help that the banks got? And they don't think that's fair.

To that point, I am not confident that the administrative changes that you want to make here are fair.

Director, I do want to ask you directly this, if I could read it, and if you could comment about it. You talked a little bit about it already.

But this is with regard to your appearance on CNBC. You mentioned companies' common shareholders is the GSEs and a part of the discussion now underway, a comment that took place while they were surprised, I guess, by what you said. And this is what I would like you to comment on. "Director Calabria's comments on CNBC on the sidelines of a major industry gathering were somewhat rushed as he tried to explain the nuances behind the notion of public offering for companies that already have shares outstanding. Holders of the common shares were never wiped out. Whether we can do some kind of conversion with preferreds or whether they would get par, it is way too early to figure that out. As a reminder, the plan that rushed Fannie and Freddie into conservatorship, as the financial system, melted down in 2008, and subsequent amendments gave the Treasury Department warrants representing about 8 percent of each enterprise payable as senior preferred shares."

In other words, they are concerned about who is going to get bailed out, once again. And that is my concern, too.

Could you comment on that? And I will give you some time to comment on that.

Mr. CALABRIA. Thank you, Congressman.

And let me very strongly, forcibly say I agree with you. None of this is unfair. I would have preferred to have inherited a fair situation when I walked in the door. I inherited a mess.

My responsibility under the statute is to fix Fannie and Freddie. You have two options in conservatorship: You either fix them, get them out, or you take them into receivership. The option of endless limbo is not an option under the statute.

I would prefer that I had a fair situation to enforce. I believe Fannie Mae and Freddie Mac got bailed out and homeowners did not. That pisses me off to this day. Just as I am mad about all of the other bailouts. And I am committing to you today that my number one objective is to see that we never, ever have to bail Fannie and Freddie out again.

Mr. VARGAS. I would also caution you, though, that Fannie and Freddie, the GSEs, have allowed many people to own homes who would not have had homes before.

If you look around the world, the 30-year mortgage with the fairly low down payment is what has allowed a lot of Americans to own homes. And it is not around the world. Every country doesn't have them. In fact, it is very unique almost to our country. And I hope we don't destroy that in the process.

I do want to give the Secretaries an opportunity to comment on that if they wish.

Secretary MNUCHIN. First of all, you have my commitment—I have been around the housing market for 35 years, and I can assure you, I very much support the 30-year market and want to make sure we do this.

But I would also just comment on your previous issue. We have made no decision as to whether they would exit by conservatorship on receivership. And I would just comment that I represent the largest creditor, which is the U.S. Government, and we would need to be a part of any decision.

So, again, we are focused on how to make them safe and sound and recapitalize them, and then we can figure out the process of raising exterior capital.

Secretary CARSON. I, too, am very much against the whole bailout issue and the too-big-to-fail issue, which is why a lot of this revision is being done. But also recognize the importance of the American Dream and people wanting to be able to own a home.

Mr. VARGAS. Thank you.

Chairwoman WATERS. The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman.

And the title of today's hearing is revealing. The title is, "The End of Affordable Housing? A Review of the Trump Administration's Plans to Change Housing Finance in America."

While this suggests that my friends on the other side of the aisle believe that any effort by the Administration to reform housing finance will increase housing prices and disadvantage low- and middle-income borrowers, in reality, the proposals set forth by the Administration lay the groundwork to protect taxpayers, retain the 30-year mortgage, improve efficiencies in the mortgage market, and lower prices for qualified borrowers.

By pushing back against common-sense reforms to housing finance, the Democrats are endangering the very low- and middle-income citizens they claim they want to protect. Unreformed GSEs will lure Americans to buy homes beyond their means and then default, with foreclosure as the result. That is not helping low-income Americans at all.

We have seen this train wreck before.

Democrats' opposition to meaningful housing finance reform will take us right back to where we were prior to the financial crisis. For years, the government's policy was to drive up mortgage indebtedness above what the market could naturally sustain.

For example, let's rewind the tape back in 2003, when this committee held a hearing on ways to improve regulatory oversight of the GSEs. And during that hearing, then-Ranking Member Barney Frank said this: "I think it is clear that Fannie and Freddie are sufficiently secure so they are in no great danger." He continued, "Fannie Mae and Freddie Mac do very good work, and they are not endangering the fiscal health of this country."

Well, how wrong he was. Let's not let this conversation about housing finance reform end the same way. It is alarming that the Enterprises' shares of low-down-payment and high debt-to-income mortgages are now higher than before the financial crisis.

But I would suggest that what is even more alarming is that the Democrat Majority today is defending this state of affairs. George Santayana said, "Those who cannot remember the past are condemned to repeat it."

The Administration's proposals seek to place our housing finance system on a stable, sustainable path and protect us from another housing crisis, and I applaud our panel for their leadership.

Now, my first question I want to ask relates to the credit risk transfer issue to Secretary Mnuchin.

The Treasury report calls on the GSEs to continue to engage in a diverse mix of economically sensible credit risk transfers, including by increasing reliance on institution-level capital. Unfortunately, current capital rules hinder banks' willingness to take on more credit risk from the GSEs. Bank capital rules based on Basel III simplified structured finance approach are grossly misaligned with GSE credit risk. The SSFA was intended to cover all lending, including unsecured debt, as Basel III was trying to make sure that banks are not making unsecured subprime loans.

However, the Enterprises make secured prime loans and thus capital charges can be as high as 5 times what banks expect to lose in the worst of recessions. With capital charges like that, it does not often make economic sense for banks to take on more risk from the GSEs despite their desire to do so.

Secretary Mnuchin, do you agree that international capital rules adversely affect our private banks' willingness to take on credit risk from the GSEs? And will you commit to working with the bank regulators on FSOC to explore ways to better tailor capital rules so that the private sector may assume more credit risk from the taxpayers?

Secretary MNUCHIN. Yes, and yes.

Mr. BARR. Thank you.

Secretary Carson, private mortgage insurance (PMI), can help borrowers with small down payments and help them prudently get into houses and stay there without putting the taxpayers at risk.

What role does your plan contemplate shifting some of the risk from the FHA to private mortgage insurers?

Secretary CARSON. We very much want private mortgage insurers to become a significant part, particularly after the GSEs exit conservatorship; particularly in smaller communities and in rural communities, they can play a very substantial role. And we are looking at ways to make it even easier for them.

Mr. BARR. I appreciate that. I think PMI is a good solution for both affordability and for protecting the taxpayer.

Finally, Director Calabria, private label securitization. What is, in your mind, the ideal proportion of mortgages held by GSEs and FHA versus portfolio lending and private label?

Mr. CALABRIA. I do think we need to see more diverse sources of capital. At least when I studied economics, I learned that duopolies and monopolies were not good for consumers. And I think bringing in more competition to this is critical.

I don't want to say there is an exact percentage, but I think there needs to be a wide range of sources of capital.

Mr. BARR. I think leveling the playing field on regulations to encourage more portfolio lending and more private securitization is the right way to go, and I applaud you for moving in that direction.

Mr. CALABRIA. Absolutely.

Mr. BARR. I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Florida, Mr. Lawson, is recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman.

And I welcome the witnesses to the committee today.

Secretary Carson, this question goes to you. And you probably understand what I am going to say. You had the opportunity to visit in my district with the housing conditions that exist, especially in the Jacksonville area. But my concern has been, one of the things that we talked about then, and I subsequently filed a bill, for setting up housing IRAs for our young people, deferred IRAs so that they could save in those IRAs on a tax deductible basis until they accumulate enough capital which can be capped maybe at $20,000 or more so that they can use those funds for a down payment.

The reason why I talk about that and have you elaborate on it is so many of the young people today don't see buying a home as an option. And I live in an area where a lot of them rent and I get a chance to talk to them. They don't see how they are going to get ahead with student loans and other things that are pressing on them coming out of school.

What are your opinions on the deferred IRAs for down payments only, except in emergency situations, but to be used for a down payment on homes?

Secretary CARSON. Thank you for your interest in that. That happens to be a great interest of mine as well.

I think we need to entertain all of the ideas. That is one of the reasons that we are really pushing the self-sufficiency programs, where people can accumulate money and not be penalized in terms of their rent going up, and then that can go into an escrow and that can be used for a down payment or other things of that nature.

IRAs, whatever mechanism that we can use, is very much appreciated, because, as you know, homeownership is the principal mechanism of wealth accumulation in this country. And one of the reasons that the wealth gap has deteriorated significantly is because a lot of people, particularly in the minority community, and particularly in the African-American community, had their credit ruined. And as a result of that, you see the homeownership rate decrease. We are looking at ways to ameliorate that situation.

Mr. LAWSON. I will see if the Director wants to comment on that.

Mr. CALABRIA. I absolutely agree. I guess I should say, in between some of my stints in government, I did some work with the Consumer Federation of America's America Saves Initiative, and I am a very big believer. I would say I think it would be appropriate if there were another route of tax reform at some point, having a universal savings account, I think, could be very helpful in terms of helping, particularly low-income households save.

Mr. LAWSON. Okay. And I look forward to continuing to work with you as this legislation is being developed.

And with that, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Colorado, Mr. Tipton, is recognized for 5 minutes.

Mr. TIPTON. Thank you, Madam Chairwoman.

I would like to be able to speak somewhat to the issue of the GSE's portfolios and the guaranteed businesses while they have been in conservatorship.

I do appreciate the comments made by my colleague, Mr. Scott, in regards to the passage of Dodd-Frank, where prior to it, we had loans that had been made with no documentation or loans with riskier product features, such as negative amortization.

Director Calabria, how can we ensure that the GSEs continue to be able to avoid such products moving forward as Fannie Mae and Freddie Mac exit from conservatorship?

Mr. CALABRIA. First, I think it is important to make sure that GSE borrowers enjoy the same consumer protections that other borrowers have and so that therefore we allow the QM patch to expire and replace it with a set of consumer protections that works for all borrowers. So, that is the most critical.

Foremost, making sure there is the capital there to support the risk. Obviously, all financial institutions, including the GSEs, exist to take some degree of risk. The real question is having the capital there to support that risk so that they can engage in increasing opportunities, but also try to make sure that we have better procedures in place and making sure that the underwriting is there, making sure the products don't come back, and making sure that the safety and soundness is there.

Mr. TIPTON. That speaks a little bit to what you had spoken about during your testimony on the 500-to-1 leverage ratio?

Mr. CALABRIA. Yes, let me—even if every single loan that Fannie and Freddie made were pristine, they would still fail at that amount of leverage.

Mr. TIPTON. Great. Thank you for that.

The ability of the customer to be able to repay speaks really to the health of our financial system. And we need to be able to make sure that the borrowers are taking only what they can handle in terms of payments.

Secretary Carson, you had mentioned about the loan insurance, to be able to have that as well.

But when we are talking about your predecessor, Director Mel Watt, he made some fairly risky programs during his tenure, while he was in office.

How would the Administration's proposal make the GSEs more risk-averse, and also, how would preserving the risk aversion priorities currently in place over the long term?

Mr. CALABRIA. Let me emphasize that I believe that any reduction in the footprint could be quite modest where we are dealing with—it is true with any sort of insurance program where it is the tail of the distribution and quite frankly the sort of—any sort of reduction of risk would really be loans we don't want to get families into, particularity at this point in the cycle.

I think it is important to keep in mind that this has been a long housing recovery. I think the vast majority of house price appreciation is behind us, and what we really need to be able to focus on is, how do we prepare families? How do we prepare Fannie and Freddie? How do we prepare the economy for a potential turn in the housing market?

Mr. TIPTON. Secretary Carson, Secretary Mnuchin, do you have anything to add to that?

Secretary CARSON. I agree.

Mr. TIPTON. Okay. Thanks. We have a lot of voices in the industry right now, and across the aisle, who are questioning the timing of the Administration's proposal.

And, Director, you just noted that right now, in terms of the current default rates, it is 0.67, 0.61 percent. We have a pretty healthy economy right now, so why is the Administration's proposal needed now?

Mr. CALABRIA. If I can paraphrase President Kennedy, "The time to repair the roof is when the sun is shining." And right now, our housing market and our economy is strong. This is the time to do it. I fear that if we don't do it now, we will not be able to make these reforms in a time of stress.

Mr. TIPTON. Great.

Do you have any comment on that, Secretary Carson?

Secretary CARSON. No, I totally agree. When is a better time to fix it than when things are good? Absolutely.

Mr. TIPTON. I appreciate the comments, and I appreciate the Administration's position in terms of trying to be able to reform Fannie Mae and Freddie Mac. Some paths are simply not sustainable. I think every individual—we want people to be able to have a home, but we also need to be able to make sure that we are not putting people in homes that they cannot afford, to make sure that we have a sustainable system, when we are talking about being able to build that wealth. And the primary residence is obviously the biggest wealth that most people are able to accumulate in their lifetime. It is important that we have a system that is not going to be punitive, that is not going to put people into a position to where they will lose those dollars in—in the event of—ultimately what will happen in business cycles, we will see economic downturns. They will come.

And I wholeheartedly agree, let's fix the roof while the sun is shining. I applaud the Administration's proposals to be able to try and address this, and I appreciate you gentlemen being here today.

I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from Michigan, Ms. Tlaib, is recognized for 5 minutes.

Ms. TLAIB. Thank you, Madam Chairwoman.

An investigation in metro Detroit found that about 40 percent of people in protected classes experience unlawful differences in treatment by housing providers. This unlawful discrimination is usually hidden. It is not like we are going to find signs that are posted on doors of homes that say, "Don't rent to Black families," or "No Muslim families," or "No LGBTQ+ families allowed."

Yes or no, Secretary Carson, do you believe that landlords or property owners or housing providers anywhere in the United States have ever engaged in discriminatory practices against protected groups?

Secretary CARSON. Of course they have, and we strongly oppose that.

Ms. TLAIB. Yes or no, Secretary Carson, do you believe there should be some level of protection to prevent or stop discrimination that is rarely explicit nowadays?

Secretary CARSON. Of course, there should be.

Ms. TLAIB. So, Secretary Carson, under your leadership, HUD proposed a rule to make substantial changes to disparate impact standards under the Fair Housing Act. The rule would make it harder for families facing housing discrimination to seek justice by shifting the burden of proof onto them.

Can you explain why the agency charged with enforcing the Fair Housing Act is proposing to make it more difficult for plaintiffs to bring forward housing discrimination claims under the disparate impact standard?

Secretary CARSON. I can probably explain it best by giving you an example.

If Congress decided that they wanted to raise the minimum wage to $15 an hour, the people who would be most impacted would be low-skilled individuals. And a lot of those low-skilled individuals would be in the minority classes, and therefore, they could bring a disparate impact suit.

We want to make sure that obvious cases of discrimination can still be addressed appropriately. In cases where something is not obvious, we want to apply logic and common sense to it. Otherwise, everything could become a disparate impact case.

Ms. TLAIB. But the burden of proof would be so much—the complete intention is to show that the impact of the act or the structure that is in place that is discriminatory against the families, like the disparate impact helps with going after those that are going to hide that discrimination.

Again, Secretary Carson, it is not like they are putting signs up anymore. It is not like we are going to find emails. I mean, sometimes we do. But disparate impact allows people access to that justice to show housing discrimination.

I am disagreeing with your example, in that you are showing that it is—because most of the claims that are coming forward, you still have a huge burden to show that kind of disparate impact. It is not as easy as it claims. I have had a number of clients and residents who have come forward. And we have lost more Black homeownership in Michigan than in any other State. We have seen actual shifting of homeownership away from communities that are struggling. And we do believe it is stemmed around a lot of housing discrimination. And there should be equal access to bring those claims forward.

I just strongly disagree with kind of the analysis that you bring forward, and really advise your Department to push back against getting rid of disparate impact, almost making it impossible, Secretary Carson, to bring a housing discrimination claim.

But, Director Calabria, we know that a quarter of the mortgages provided by the Government-Sponsored Enterprises must be allocated to low-income borrowers, as I know has been discussed.

The Treasury Department claimed that in order to protect taxpayers and make housing more affordable, the Federal Housing Finance Agency should bring in private lenders to foster competition in the financial system.

Any time, Director, fostering competition is being brought up or used, it results in the Enterprises getting richer at the expense of ordinary people.

Director Calabria, these private lenders also have an obligation to make a quarter of the mortgages they back to low-income borrowers?

Mr. CALABRIA. All of the private lenders who originate mortgages and, therefore, sell them to GSEs, are indirectly impacted by the housing goals, because the loans that are bought have to meet the housing goals.

So, again, let's say you were a lender who sold 100 percent of your loans to Fannie or Freddie, you would, on average, be meeting those housing goals. Again, indirectly, it impacts the originators and servicers who deal with Fannie and Freddie.

Ms. TLAIB. And what my residents would ask you is about accountability. How do we make sure? How can we make sure these private market participants are beholden to the American home buyers rather than shareholder profits?

Mr. CALABRIA. I think that is a great question. I have no ability to regulate the counterparties to Fannie and Freddie. I regulate directly Fannie and Freddie. And so, our accountability is making sure that when Fannie and Freddie meet those goals, they can only meet those goals by having the entities that they buy from, essentially, on average, meet those goals.

Ms. TLAIB. And just lastly, Director, just always remember you are also creating a structure. So even if you don't, you are creating a structure that allows it.

Mr. CALABRIA. I appreciate that. Thank you.

Ms. TLAIB. Thank you so much, Madam Chairwoman.

Chairwoman WATERS. The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS. I thank all of you for coming here today, and I know I have asked both the Secretaries the question when they have been here in the past, but this is the first time I have had the opportunity to ask the third panelist, Director Calabria, are you a capitalist or you a socialist?

Mr. CALABRIA. I am a pretty ardent capitalist.

Mr. WILLIAMS. Thank you for that. I look forward to working with all of you and to working with you over the next few years as a partner in the housing finance reform. There is a problem, however, with the affordable housing in this country, but it isn't because of any of the recommendations laid out in these last two reports. Excessive State and local regulations, land use restrictions, outdated zoning laws, and parking mandates are just a few things that increase the cost of developing new affordable housing units and have prevented supply from meeting demand.

Secretary Carson, regardless of what is done administratively to the housing finance system, will it make a difference to the affordable housing stock if State and local governments do not address this root cause of this issue?

Secretary CARSON. No. In order to be effective, it is going to require a combination of Federal, State, and local jurisdictions, and a lot of the problems obviously are local regulations. Eighty percent of the regulations are local in nature and many of them are archaic, and instead of people replacing one regulation with another one, they come up with something better, they just layer it on top and we have become a very complex labyrinth to get from point A to point B, and each one of those arms of that labyrinth is an expense as well as creating more time lapse.

Mr. WILLIAMS. GSEs are in a worse financial state now than they were before the financial crisis. Even after the GSEs retain $45 billion in earnings over the next 18 months, they will still be drastically undercapitalized, as we have heard, for their $5.5 trillion in assets.

Secretary Mnuchin, what do you believe is the appropriate capital standard for the GSEs and do you think that they will be able to raise the amount of capital from the private sector?

Secretary MNUCHIN. In regards to the first issue, again, I defer to the Director's analysis before we comment on it, but I do believe that the GSEs can raise a very significant amount of capital from the private sector, so we do anticipate the combination of retention and third-party capital raise. There will be sufficient capital to get to the new standards.

Mr. WILLIAMS. Good. Okay. The GSEs clearly have significant market advantages because of their congressional charters and other statutory privileges. There have also been several things the GSEs have done while in conservatorship that have further increased their competitive advantage over private sector participants. And you briefly touched on this earlier, Director, but as we move forward in this process, can you elaborate on how the Administration plans to level the playing field so the potential market entrants can fairly compete with Fannie and Freddie in a reformed housing finance system?

Mr. CALABRIA. Thank you, Congressman. I think this is critical. I want Fannie and Freddie to be successful and effective, but I want them to be successful and effective because of good management, good business practices, not because they are held to lower standards than everybody else.

I mentioned earlier for the Qualified Mortgage rule, I believe CFPB is making significant progress on that, and I believe that was mentioned in the Treasury report as well. I have had a number of conversations with other regulators. I have talked to the SEC about reforming Reg AB, and talked to the bank regulators about trying to get some relief. We have really seen difficulty in making bank portfolio loans, particularly for community banks, so I think additional community bank relief is critical to being able to get the mortgage market to move again. So, all of this coordination is a number of things that we are working on.

Mr. WILLIAMS. Good. One last question, Director, you stated that one of the critical changes needed, prior to the end of the conservatorship, is strengthening the powers of the regulator. What changes are needed to the FHFA to ensure it is equipped to be a regulator in a post-conservatorship world?

Mr. CALABRIA. One of the powers I have asked for, and I know that it is being discussed within the committee, is we all remember, especially post-Cap One, the transition to the cloud, so the Federal Reserve and other bank regulators have significant authority under the Bank Service Company Act to go in and look at service providers. Fannie and Freddie are transitioning into the cloud. Having all of that mortgage data in one space is very concerning to me. I have no authority to go in and do the same thing that the Federal Reserve and others can do to make sure that the cybersecurity threats that may threaten Fannie and Freddie are not severe. So, that is one.

I would like chartering authority like every other regulator. I think it is important to bring competition to the marketplace, and I would like greater discretion—if you want to know what I would like under capital standards, simply look at Section 38 of the Federal Deposit Insurance Act. If you can give me that, I would be delighted.

Mr. WILLIAMS. Good. Well, competition is good.

Mr. CALABRIA. Absolutely.

Mr. WILLIAMS. And none of you have touched on this, but I will go ahead and do it and say, Astros in six.

Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. The gentleman from Illinois, Mr. Casten, is recognized for 5 minutes.

Mr. CASTEN. Thank you, Madam Chairwoman.

Secretary Mnuchin, I would like to turn to Rusal, an aluminum company largely owned by Russian oligarch Oleg Deripaska. As you know, in April 2018, the Treasury Department sanctioned Deripaska and Rusal as part of a targeted strategy against oligarchs believed to be close to Putin and were designed to punish him for subverting western democracies.

The Treasury Department lifted those sanctions in December 2018. Mr. Deripaska, as you know, is detailed in the Mueller report to have financial dealings with Paul Manafort, who is now in jail. Earlier this year, the Associated Press reported that Manafort began collecting $10 million a year in 2006 from Deripaska to advance Putin's interests in western governments. On June 20, 2016, Mr. Manafort was named Trump's Campaign Chair. Less than 2 weeks later, on June 7th, he asked an overseas intermediary to pass the following message along to Deripaska, "If he needs private briefings, tell him we can accommodate him."

Two-and-a-half-years later, sanctions were lifted, and shortly after that Rusal announced it was investing $200 million into a project in Kentucky. In April of this year, you testified in this committee that you delisted those sanctions against Rusal because, "The company approached us, not the oligarch. The company approached us, a large group of people."

Was Senator McConnell among the people who approached you?

Secretary MNUCHIN. I am not really sure what this has to do with housing reform, so I am—

Mr. CASTEN. Sir, the trust in our financial system depends on the entire system.

Secretary MNUCHIN. Again, I am happy to answer it.

Mr. CASTEN. Okay.

Secretary MNUCHIN. I don't see the relevance to housing reform, but no, I have never spoken to Mitch McConnell about that, other than when we briefed the entire Senate, Republicans and others—

Mr. CASTEN. Prior to lifting the sanctions?

Secretary MNUCHIN. —on the sanctions.

Mr. CASTEN. Did Secretary Chao approach you to lift those sanctions?

Secretary MNUCHIN. No, he did not.

Mr. CASTEN. Did any Member of Congress, House or Senate, approach you with respect to lifting those sanctions?

Secretary MNUCHIN. Not that I can recall, but we had extensive discussions with many people on what we would be doing about lifting the sanctions.

Mr. CASTEN. Did Craig Bouchard of Braidy Industries approach you about lifting those sanctions?

Secretary MNUCHIN. I am not even sure I am aware of who that is, so no.

Mr. CASTEN. Braidy Industries is the company that is a substantial beneficiary of that investment in Kentucky.

Secretary MNUCHIN. Like I said, I am not aware of who that is.

Mr. CASTEN. Did anyone associated with Braidy Industries approach you about lifting those sanctions?

Secretary MNUCHIN. Again, I don't—as I have testified before, we lifted these sanctions because we negotiated an agreement—

Mr. CASTEN. Just a yes or no is fine. I am just asking whether you understand. I get to that because of the news from this last week. Last week, it was reported that in December of 2018, largely contemporaneous with your decision to lift sanctions, there was a seizure of documents from Terra Services, Ltd. This is a London-based company owned by Mr. Deripaska, a real estate firm that he controlled. That raid has been described as being, "in connection with the special counsel investigation," that, of course, being the one led by Mr. Mueller. This raid is substantially contemporaneous with the Treasury Department's lifting of sanctions and you appreciate, I am sure, how bad this all looks.

The question is, did you have any knowledge of the raid or the preparation for the raid at the time you were making a decision to lift those sanctions?

Secretary MNUCHIN. Again, I find it interesting that when we are here to discuss housing reform, you are trying to grill me on something that happened months ago.

Mr. CASTEN. Sir, I would reiterate, sir, that if you can isolate risk in the financial sector, Lehman Brothers would still be here today. I am concerned about whether or not people trust that the Treasury Department is acting in the best interest.

Yes or no, did you have knowledge of the raid or the preparation for the raid at the time you decided to lift the sanctions?

Secretary MNUCHIN. No, I had no basis of knowing about the raid or involvement with the special counsel.

Mr. CASTEN. And in any of the answers that you have given me, can I assume that your lack of knowledge can be applied to the entire Treasury Department? Were there people in the Treasury Department that you believe would have been knowledgeable?

Secretary MNUCHIN. Of course, you can't assume that. I am not making representations for what is obviously a thousand people within the Treasury Department. Again, we are—

Mr. CASTEN. Okay. One final question—

Secretary MNUCHIN. If you have these concerns, we would be happy to discuss them with you at the appropriate time.

Mr. CASTEN. Okay. So one final question, and I appreciate your willingness to share, will you commit here today to ensure that the employees of the Treasury Department, under your control, will comply with any congressional subpoenas relating to these matters?

Secretary MNUCHIN. What I will assure you is that we will follow the law—

Mr. CASTEN. They are congressional—

Secretary MNUCHIN. —as reviewed by our general counsel. So, as I think you know, we have already received subpoenas that we did not think were legal and, again, I will refer them to my general counsel and they will be reviewed, but I can assure you that we will always follow the law. That is our intent.

Mr. CASTEN. Let's hope so.

I yield back.

Chairwoman WATERS. The gentleman from Arkansas, Mr. Hill, is recognized for 5 minutes.

Mr. HILL. Thank you, Chairwoman Waters. And I appreciate Secretary Mnuchin, Secretary Carson, and Director Calabria being here today. This is a very important topic. I appreciate you reprising your presentation to the Senate. You can tell all the interest that we have on this topic in the committee.

About a year ago, I wrote an Op-Ed about how Fannie Mae and Freddie Mac have been violating—this is my view—violating their charters, misleading Congress, and misleading investors dating back to the 1980s, so I am always very suspicious of reform ideas since the 1980s, the 1990s, and the 2000s have not delivered very successfully on those.

The agencies have entered into new activities and product offerings including, but not limited to, mortgage insurance, lines of credit to nonbanks, and buying mortgage servicing rights. These concerns have raised questions regarding the proper role in the overall housing market, which we have talked about today.

Additionally, the GSEs continue to grow their footprint by increasing the loan limits, allowing mortgage subsidies for second homes and increasing caps for multi-family lending.

Director Calabria, as you look at this issue now that you are our head of the regulatory body, how are you going to ensure that the GSEs stay within their charters?

Mr. CALABRIA. Thank you, Congressman. Let me emphasize, I think this is always a critical concern. Any time a player in the marketplace has considerable market power, they try to leverage that and other lines and I think that is something we always have to be cautious of. Fannie and Freddie have the ability to essentially put anybody out of business that they could directly compete with, so it is certainly a very large concern of mine.

The Housing and Economic Recovery Act of 2008 set up a new structure for product approval. This was a big concern going into the crisis and we will be doing a rulemaking. I am disappointed that it is 11 years later, and there has not been an established rulemaking on this before I got there, but we will be setting up a rulemaking to have a very clear process to make sure you see—

Mr. HILL. I thank you for that. I think you should echo former OMB Director, and former Governor of Indiana Mitch Daniels' admonishment that if it is in the yellow pages, it doesn't need to be done by the government. So, I urge you to be very disciplined in looking at that process.

You have referenced in your testimony on page 3 that your job is to remove the GSEs from conservatorship by reorganization, rehabilitation, or winding up their affairs. I take it from the Treasury report and the HUD report that there is this bias towards recapping and releasing. Those are my words, not your words, but it gives the appearance that the implication by what has been said is that we are going to release these entities, they are going to raise capital with a reduction in the sweep, renegotiate the preferred stock arrangement, and then they are going back out into the marketplace.

Director Calabria, do you support recapping and releasing Fannie Mae and Freddie Mac?

Mr. CALABRIA. I do not support simply putting them back out there the way they were before the crisis. I will say I very much share Secretary Mnuchin's earlier point that no decision has been made yet on moving forward. I do believe that I have a responsibility in the interim to help build capital at these Enterprises.

Mr. HILL. Secretary Mnuchin, would you like to comment, please?

Secretary MNUCHIN. Yes. I would just say that I don't agree with your characterization of a bias. I think, as I have testified earlier, we have the option to take them out through conservatorship or we have the option to go through receivership. We have not had any discussion and my sense is, what we do agree on is that they need more capital and we would hire appropriate advisers to determine what is in the best interests of the taxpayer.

Mr. HILL. Good, so you are open minded about these various models of substitution that might be proposed; in other words, we have proposals to have a mutual that is a utility, a nonprofit that is a utility, a government that is a utility, or we have the recap and release with competition where Director Calabria has congressional authority to charter new entities, you are open to considering all of these options?

Secretary MNUCHIN. Again, I would say that our number one objective is to make sure we meet the housing goals that have been outlaid, and to protect the taxpayers, and we will look at whatever the best alternative is for that.

Mr. HILL. Thank you, Mr. Secretary.

Secretary Carson, earlier this year when you testified, I recommended that FHA Commissioner Brian Montgomery testify before our committee, and I still hope that our Chair will encourage the FHA Commissioner to come and discuss FHA's book of business. I am concerned it has deteriorated in loan quality over the last couple of years, that FICO scores are lower, that debt-to-income ratios are higher, and that is concerning to me. And also, Director Calabria has mentioned the that GSEs are competing with FHA for the same first-time home-buyer market.

Secretary Carson, do you agree that the GSEs should not compete with the FHA in the first-time home-buyer market, in the secondary market?

Secretary CARSON. I think the GSEs have a different mission target than FHA does. Can they both work within that sphere? Of course, they can, but I think one is more specialized. It is sort of like a cardiac surgeon and a urologist. They both can probably operate on your heart, but I think you would probably rather have the cardiac surgeon.

Mr. HILL. Thank you. We will put you down as an expert witness on that.

I yield back.

Chairwoman WATERS. The gentlewoman from Virginia, Ms. Wexton, is recognized for 5 minutes.

Ms. WEXTON. Thank you, Madam Chairwoman, and thank you to the distinguished gentlemen for coming to talk to us today about this important topic.

Secretary Carson, FHA currently charges a flat fee for mortgages that it backs, but your plan for housing finance reform recommends a risk-based pricing structure for FHA loans. Advocates have expressed concerns that this could fundamentally undermine FHA's mission to serve underserved borrowers by charging higher premiums to those who can least afford them.

Has HUD evaluated the effects of risk-based pricing on borrowers throughout the credit spectrum, specifically what would the effective tiered pricing be on the least wealthy Americans whose credit scores are below 650?

Secretary CARSON. Yes. This has been a subject of great conversation. We have looked at the different scenarios. We feel that if we just have a one-size-fits-all model, it has a tendency to attract the highe- risk people into that pool, and in the long run could actually elevate the cost for the low-income individuals.

Ms. WEXTON. You didn't answer this question, but would the premium or would the fee be higher for higher-risk individuals and lower for lower-risk individuals?

Secretary CARSON. Yes.

Ms. WEXTON. Has HUD conducted a fair housing analysis to determine if protected classes of borrowers would be disproportionately impacted by this new policy?

Secretary CARSON. Protected classes would also undergo the same type of credit risk analysis and would have the fees appropriately scheduled for them.

Ms. WEXTON. Are you saying that the fees would not be based on their risk; it would be based on whether or not they are a protected class?

Secretary CARSON. No. Fees are based on risk whether you are a protected class or not.

Ms. WEXTON. Has HUD conducted a fair housing analysis to determine what the impact of this would be?

Secretary CARSON. I would be happy to send that information to you.

Ms. WEXTON. Did HUD conduct such an analysis?

Secretary CARSON. Of course, we have looked at the various scenarios, and we have that information.

Ms. WEXTON. Okay. And does the information show that protected classes are disproportionately impacted by these risk-based fees?

Secretary CARSON. No, they are not.

Ms. WEXTON. Okay. If you would share that analysis, that would be fantastic. Thank you.

Secretary CARSON. Absolutely.

Ms. WEXTON. Also, Secretary Carson, HUD's plan for housing finance reform recommends that Congress establish FHA, VA, and USDA as the sole source of low-down-payment financing for borrowers not served by the conventional mortgage market.

Are you recommending that Fannie and Freddie get out of the business of backing low-down-payment loans?

Secretary CARSON. I think it would be good if we have segments of the housing finance market focus on particular mission targets. That doesn't mean that there won't be some overlap.

Ms. WEXTON. If FHA, VA, and USDA essentially have a monopoly on these low-down-payment loans, wouldn't that crowd out private sector participation in those loans?

Secretary CARSON. The private sector could decide which segment of the population they want to specialize in. No one would try to tell them what they could or could not do.

Ms. WEXTON. And that would probably disproportionately impact some less creditworthy protected classes as well, would it not?

Secretary CARSON. It depends. Some people in the private mortgage insurance market might decide that they want to focus primarily on low-income, high-risk individuals, which probably is not going to be the financially best move for them to make, but maybe they might feel some social obligation to do that. We wouldn't preclude them from doing that if they wanted to.

Ms. WEXTON. I have not found social obligation or social desires to be a big motivating factor among most of these for-profit companies.

Secretary CARSON. I think that is right.

Ms. WEXTON. Secretary Carson, I see I only have about a minute left, so I wanted to give you a chance to apologize for comments you made during a meeting with HUD staff last month where you described transgender women as, "big hairy men."

Secretary CARSON. First of all, I didn't describe transgender women that way. I was relating a story that a women's group told me about big hairy men who are not transgendered women, by the way, coming into their facility and having to be accepted because of the rules that were in place.

Ms. WEXTON. What was the women's group that told you this story?

Secretary CARSON. It was a group from Alaska.

Ms. WEXTON. What was their name?

Secretary CARSON. I don't remember.

Ms. WEXTON. Okay. Could you get that for us, please? So, you don't feel the need to apologize for those comments?

Secretary CARSON. No. I think this whole concept of political correctness—you can say this, you can't say that, you can't repeat what someone said—is total foolishness, and it is going to destroy our nation, and we need to be more mature than that.

Ms. WEXTON. Very good. Thank you very much.

I yield back.

Chairwoman WATERS. The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman. And I thank all three of you for being here.

Secretary Carson, Secretary Mnuchin, you have both been here before. You are aware of the theatrics that go on here and, Director Calabria, I appreciate you being here. Sometimes I am amazed myself with what happens here. There is a popular television commercial out there about these young people who are in the middle of a horror show and they have an opportunity to run away from this terrible incident by jumping in a running car, but they choose to go behind chainsaws ahead and then run to a cemetery.

I often relate that to Congress as it seems like when we find ourselves in the middle of a really bad situation, some of us look for the running car, and others just keep wanting to run to the chainsaws to make the situation worse and worse. And I appreciate what you are trying to do with the reforms of the GSEs. You are looking for that running car. To me, the economy is that running car that we can jump in and use the strength and the power of this economy to make changes going forward and make the economy strong.

In my hometown in Bartow County, Georgia, we just posted in August the lowest unemployment rate in the history of that county. To give you an example, in 2010 unemployment was 12.2 percent. In August of 2018, it was 3.8 percent. This year, it was 3.5 percent. We are seeing manufacturing return. However, we are also seeing some problems associated with a strong economy.

One is the jobs that are made available. We just don't have skilled workers getting into those jobs. In fact, I held a skilled jobs fair at the beginning of this month where we brought employers in and we put the invitation out to every high school in our district, every high school responded, and over 400 students showed up to get matched with employers who will do apprenticeships, so we are addressing those.

The other issue I am hearing from employers that is a big problem is the lack of entry level homes for the employees they are bringing in. In fact, my son-in-law and my daughter are looking for a home and he said, basically, anything in that starter home level in our area of Georgia from $140,000 to $180,000 is sold by the time it hits the market, and it sells for more than the asking price of the home.

And so we are trying to find some ways to address that, but what it is doing is, it is pushing those new employees to either take long commutes from other communities because they can't find the affordable housing in our area, let me say entry, level housing or they are moving into multi-family housing, which is creating a supply-and-demand issue there which is causing apartment complexes and other multi-family homes prices to go up.

I appreciate, Dr. Calabria, the efforts to retain capital, because we do need to have that rainy day fund if and when we do get into the next financial crisis. I think that is a good business decision. I think that is a good running car to be in. My concern is—and I know this rule was proposed by your predecessor—if we make that a permanent rule after we are out of conservatorship and things are going again and that is a permanent rule, is the requirement for multi-level family or multi-family dwellings to be double that of a single family? The concern I have is, could that actually further impact the availability of these homes that are really needed in our parts of the country?

Mr. CALABRIA. Thank you for the question, Congressman. Certainly, we want to make sure fundamentally with a well-thought-out, strong capital rule that means that Fannie and Freddie are there during stress time so that they can provide that credit. I will remind the committee, if you go back and look in 2008, before they fell, 2009, 2010, Fannie and Freddie, pulled back from the marketplace. They focused on saving themselves. I think any for-profit enterprise would have largely done the same, so we need to make sure that they are strong going into a stressed environment so they can continue to be there. We certainly are not looking to penalize multi-family or single family relative to each other, but just to make sure that the risk-based capital standards reflect the relative risk and, unfortunately, the multi-family portfolios at Fannie and Freddie largely came through the crisis well, with much stronger underwriting there, but again, making sure that the risk and the capital there is balanced is where we are going.

Mr. LOUDERMILK. People can add to this, but I just want to make sure that by doubling the retainings from the multi-family, it doesn't create an unbalance there to further the crisis.

One other quick question in the final seconds I have, there has been a prohibition against the GSE's lobbying while they are in conservatorship. I want to make sure that we continue that going forward. Will you support a ban on lobbying Congress by the GSEs?

Mr. CALABRIA. I think it depends on how it is structured. Even Fannie and Freddie have First Amendment rights, so I just want to make sure that we respect those.

Mr. LOUDERMILK. Thank you.

I yield back.

Chairwoman WATERS. The gentlewoman from North Carolina, Ms. Adams, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Madam Chairwoman, and I thank you gentlemen for being here today. First-time home buyers have traditionally been the driving force of the housing market and these borrowers traditionally rely on low-down-payment mortgages to purchase their homes. In fact, over the past several years, nearly 80 percent of first-time home buyers with mortgages purchased homes using low-down-payment products.

Director Calabria, can you please speak to how the FHFA will ensure that borrowers continue to have access to affordable, prudent low-down-payment mortgage options?

Mr. CALABRIA. We will certainly continue to make sure that they are sustainable, that when we get people into homeownership, they are there to stay, and I do think, of course, down payments are part of the question as is DTI, FICO, and borrower credit scores. But we want to make sure that we get borrowers in to stay, and I commit to you that is what we will be trying to do.

Ms. ADAMS. Thank you for that commitment.

And for each of you, if you could just answer yes or no it would be helpful, should the Federal Government play a role in ensuring access to affordable housing and affordable loans?

Secretary Mnuchin?

Secretary MNUCHIN. Yes.

Ms. ADAMS. Thank you.

Secretary CARSON. Yes.

Ms. ADAMS. Okay, great.

Mr. CALABRIA. And, of course, we should do it in a responsible manner.

Ms. ADAMS. Okay. Do the GSEs play a role in ensuring access to affordable housing and affordable loans?

Secretary MNUCHIN. Yes.

Secretary CARSON. Of course.

Mr. CALABRIA. Yes.

Ms. ADAMS. Okay. Great.

Secretary Mnuchin, your plan for housing finance reform proposes to replace the current affordable housing goals with a fee that would fund affordable housing programs, and while you provide extensive details on other recommendations in your plan, you provide no details on the size of this fee or what kinds of affordable housing programs the fee would fund, or how you would expect this would be an adequate replacement for the affordable housing goals.

It is clear that you are punting a little bit on key details of your plan when it comes to affordable housing, but affordable housing cannot be an afterthought in the debate on housing finance reform; it has to be at the center.

Can you please tell us why you have decided not to spell out key details of your own plan on affordable housing?

Secretary MNUCHIN. Thank you for that question. First, as I said in my opening testimony because I wanted to clarify, we want to make sure that there is affordable housing. I think it has been misinterpreted that we are looking to replace the goals with a fee. That is one alternative that has been proposed. That is not necessarily our only alternative. What we are saying is that in the affordable housing goals, we want to make sure they are accountable. We want to make sure that the community groups and the communities are getting the benefit of that.

So, it is really more about accountability, and we look forward to sitting down on a bipartisan basis and figuring out, how we do not have less affordable housing, if anything, hopefully, we could have more affordable housing and people better served.

Ms. ADAMS. You do have some details, then?

Secretary MNUCHIN. We have views, absolutely, but we would sit down on a bipartisan basis and want this resolved because it is not just Treasury.

Ms. ADAMS. Okay. Thank you, sir. Let me move on. Over the summer, the GSEs made several concerning changes to the affordable lending products, Fannie Mae's HomeReady and Freddie Mac's Home Possible. Previously, these programs had income limits of 100 percent of the area median income, and now the income limits are 80 percent.

Director Calabria, are you concerned that these changes will deprive consumers of mortgage options and potentially lock them out of the conventional market?

Mr. CALABRIA. I think it is important that we make sure that Fannie and Freddie's affordable housing efforts are well-targeted. For instance, the statutory framework as affordable housing goes builds on income, most of the programs are targeted at credit and, of course, while credit history and income are positively correlated, they are actually only weekly.

We are actually in a situation historically where high-yield credit, lower-income borrowers have been cross-subsidizing worse credit in higher-income borrowers, and so one of the things that we are trying to make sure of is essentially to make sure that the affordable housing products that are provided are well-targeted within the goals to low-income families.

Ms. ADAMS. Great. Thank you very much.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you. The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Madam Chairwoman. And I thank our witnesses. Thanks for the work you do on behalf of our great country and the skill with which you do it. It has been an honor to see you all at work in your roles, and really just for the benefit of folks back home in Ohio who are concerned about affordable housing as well. It is not just on the coast where affordable housing is of concern.

In rural communities, we often face shortages, and part of that is due to just population density, even though the cost of living is much more manageable in Ohio. But when you look at the size of the balance sheets that we have within Treasury, that we have within the various components, I am just curious, what percentage of that balance sheet is comprised of things the market would produce, market risk versus essentially subsidized programs that would never actually be produced in the market?

Director Calabria?

Mr. CALABRIA. Thank you. Let me really emphasize, as someone who grew up in rural America, the importance of making sure that credit is available there. I will also note that I have been going around and seeing the Federal Home Loan Banks, and I recently visited the Cincinnati Federal Home Loan Bank. I want to make sure that I get outside of Washington, but more directly to the question, we are looking at it very closely, whether it is the conversation between the GSEs and the FHA or between the private market. We don't want any gaps, but we do want to look at, where can the private sector pick up this business and provide it so that no one is left out?

Mr. DAVIDSON. Thank you.

I don't know if we will have an easy quantitative answer, but that highlights the problem to me.

To me, if you think about the composition of the balance sheet, we begin with underwriting and some things just wouldn't pass an underwriting test. They really wouldn't. They only exist because there is a Federal program that intentionally targets this. We decided as a country collectively to pass a law that said we are going to do these things. The market wouldn't produce these things and my concern goes to how those things filter through the balance sheet and then wind up on the back end, perhaps in a credit risk transfer.

When I look at the efforts to delever the balance sheets and put that risk back out into the market, and I think back on the housing crisis, people in the financial sector have been demonized because they structured these mortgage-backed security products in a way that was full of bad product and not enough good product, and it seems to me that non-market-based risk shouldn't enter the market.

It should be held on the Federal Government's balance sheet because the only reason it exists is because the Federal Government decided to create it. And as we look to delever that balance sheet and we use the product called a credit risk transfer for the benefit of folks at home, Director, could you please explain what a credit risk transfer is?

Mr. CALABRIA. Certainly. What the GSEs will often do is they will have a pool of loans which they end up calling the reference pool and they will sell a credit risk into the marketplace. They have over 200-some investors in the marketplace. Some of these are insurance companies, and other types of investors, and they will essentially take the credit loss, so if this reference pool doesn't perform, the credit loss is transferred to the investor.

It does allow us to get some market signals, so the bids that we see on credit risk transfer are an indication of what market participants think about the underlying risk of the reference pool. So, I think we are learning a lot from that process and having a better insight on risk and, of course, within conservatorship, this was an important way to get some of the risks outside of the GSEs.

Mr. DAVIDSON. Thank you for that. When we look at selling that product, right now my concern is that this isn't really retained on the Federal Government's balance sheet. In fact, some might propose what to me would be an absolutely horrible idea, which is to protect the taxpayer, to sell it off into the market, to keep the good stuff on the government's balance sheets and effectively keep the lean meat on the government's—sell the fat and fillers out into the market and that is a recipe for disaster. This should never enter the market because the market would never actually produce it. They wouldn't even do the underwriting to let this happen in the first place.

As I look through the recommendations, Mr. Secretary, I just would ask that you consider the structure, the purpose that these entities even serve, because even now at 3.5 percent of unemployment with the economy booming, record low unemployment, wealth and prosperity on the rise at every income level in the United States of America, we are actually providing bigger Federal housing subsidies than back right after the crisis when we had a shortage of affordable housing at a different level.

We had 10 percent unemployment, and unfortunately the trend isn't for less Federal housing subsidies; it is for more. And so, we are continuing to load up these balance sheets with bad products. I just ask that you protect the market by making sure that doesn't wind up in the credit risk transfer pool so that people in the financial sector can do sound on the front end and on the back end and the government can contain the problem that they are, in fact, creating.

Thank you.

Chairwoman WATERS. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. We currently have a system that is the envy of the world, with ordinary working people able to buy, who borrow hundreds of thousands of dollars at pretty low rates. We have a system that has produced $300 billion of profit for the Federal Government, and has paid back the Federal Government $109 billion more than was necessary at the beginning of the crisis.

It works. It produces huge profits. It produces low interest rates. It is a far better real estate finance system than any I am aware of anywhere in the world. It has one giant flaw. There is no way to make a billion dollars for a private individual. There is no way to get stock options for a private individual. It works for everybody except the one-hundredth of the top 1 percent. This is working so well that you couldn't get Congress, not even Congress which often makes stupid mistakes, to approve spinning these entities off. They are, in effect, government entities.

Secretary Mnuchin, do you believe that you can spin these entities off without an Act of Congress authorizing that?

Secretary MNUCHIN. Yes, we do, but let me just make a comment.

Mr. SHERMAN. No, no, I have a limited amount of time. You had your opening statement; this is my 5 minutes. I hope very much that you don't. It would be a terrible mistake and anything Congress—but let's move on.

You have said that we are not going to lower the conforming loan limits as part of your plan. I have so many worries about this. You wouldn't deny the Federal Government a backstop to loans over a certain amount as long as that amount isn't the applicable conforming loan limit? In other words, you are not planning to back into a decline in the conforming loan limit by saying, well, certain loans under that limit will still conform, they just won't get a backstop. I shouldn't worry about that, should I?

Secretary MNUCHIN. No. That is not the case.

Mr. SHERMAN. Good. Thanks.

Director Calabria, one out of six mortgages relies on the QM patch. The patch is set to expire very early in 2021, and the tendency, particularly in my branch of government, is to deal with things like that a day before the thing is going to explode. Can I be confident that business will have plenty of advance notice if there is a change in the QM patch?

Mr. CALABRIA. I will certainly endlessly nag the CFPB to get it done in time.

Mr. SHERMAN. We just had them here, and I nagged them, too, so I am helping you out.

Okay. We have a Federal system. The decision as to whether to have rent control is a decision made by States, and in my State is delegated to cities, and I would hope that we wouldn't try to use the power that you gentlemen have to tell California and various cities what kind of rent control they should have, especially when you are making a loan at the beginning, and you know what the rents are when you make that loan, and the loan has to be a good loan based on the rents that exist when you make the loan.

So, the opportunity to raise those rents higher may be very beneficial to a real estate investor, but are not necessary for you to determine that the rent will pay the mortgage.

Secretary Mnuchin, is there going to be some effort to penalize multi-family apartment home purchasers if they happen to be in a city that allows certain types of rent control?

Secretary MNUCHIN. I think the answer is that rent control has worked for very long periods of time, and I think the real question is, if there are substantial changes to rent controls that, really—and this is the Director's responsibility—that the GSEs have to properly underwrite the credit of those loans.

Mr. SHERMAN. But it will be an underwriting issue—

Secretary MNUCHIN. Correct.

Mr. SHERMAN. —not a use of the power of the Federal Government to go with one system rather than the other?

Secretary MNUCHIN. Absolutely not.

Mr. SHERMAN. And as I pointed out, it shouldn't be a big underwriting concern because you are making the loan based on the rentals that exist when you make the loan. Nobody is making a loan and saying, well, it is a terribly imprudent loan, but when you raise the rent some future day, it is going to—

Secretary MNUCHIN. I would just comment that there could be a credit issue, for example, if these are 30-year loans and people don't reinvest capital to keep the buildings correct, there could be—

Mr. SHERMAN. I look forward to 30-year apartment loans.

And I yield back.

Chairwoman WATERS. The gentleman from North Carolina, Mr. Budd, is recognized for 5 minutes.

Mr. BUDD. Thanks to each of you for being here. This hearing was titled by the Majority as, "The End of Affordable Housing." So to each of you, is there anything in the Administration's housing reform plan that would end affordable housing or that would call for the end of affordable housing? Yes or no?

Secretary CARSON. Absolutely not. In fact, our highest priority is to provide affordable housing.

Secretary MNUCHIN. I tried to clarify that in my opening statement and I would give the Chair and others the benefit of perhaps they didn't understand certain aspects of the plan.

Mr. BUDD. Director Calabria?

Mr. CALABRIA. No.

Mr. BUDD. Thank you.

And, again, a yes or no from each of you, will the Administration's plan lock Americans out of 30-year fixed-rate mortgages or result in the loss of investor confidence in our housing investments?

Secretary MNUCHIN. No.

Secretary CARSON. No.

Mr. CALABRIA. No.

Mr. BUDD. Thank you.

Is the goal of affordable housing better advanced through the convoluted system we have of today's goals, quotas, and set-asides, or could it be better served through a new housing finance system with a more efficient, transparent, and accountable mechanism for delivering tailored support?

Secretary MNUCHIN. It would be better served.

Secretary CARSON. The latter.

Mr. CALABRIA. I have yet to see a government program that couldn't be made better.

Mr. BUDD. Thank you.

Director Calabria, this question is for you and, for the record, I really appreciate your hard work on serving as a conservator of Fannie and Freddie and as a regulator of the Federal Home Loan Bank system. You have been exceedingly transparent on what your intended course will be and on every step you intend to take, so, again, thank you.

I understand you are in the middle of a comprehensive review of pilots and special programs at Fannie and Freddie, and I value this work, because in a couple of areas I worry that the GSEs are operating in ways that compete directly with the primary mortgage market. Take for example, Freddie Mac's mortgage insurance pilot called, "IMAGIN," and Fannie Mae's mortgage insurance pilot called "EPMI." Should entities in conservatorship be operating pilot programs that directly compete with the private sector, and if not, would you explain to this committee why you are opposed?

Mr. CALABRIA. First, let me say as a top line issue both in and outside of conservatorship, I fully expect the GSEs to live within their charters and we will take a very direct—if it is not on the page, they are not doing it. That is the way the law is. Within conservatorship, the focus on any sort of pilots or efforts, in my opinion, is to be focused on getting out of conservatorship, and that has to be the primary focus of strengthening these companies and getting us ready for potential downturn in the housing market.

Mr. BUDD. Could you elaborate on that a little more? In what ways do you see them as competing against the market? I just want to drive that point home, if you could help me with that?

Mr. CALABRIA. We will be reviewing all existing pilots to make sure that they are consistent with exits of conservatorship.

Mr. BUDD. So the main priority, if you would say it again, would be to get out of conservatorship?

Mr. CALABRIA. Absolutely.

Mr. BUDD. Thank you. Again, continuing with you, Director Calabria, what are the impacts on taxpayers and home buyers of FHA's expanded market share since the financial crisis, and how has FHA's attempt to grow its way out of fiscal problems actually displaced private capital and expanded taxpayer risk?

Mr. CALABRIA. Is this question on FHA, can I clarify?

Mr. BUDD. It was for FHA.

Mr. CALABRIA. We certainly want to make sure that FHA and the GSEs are competing in a way that is not counterproductive. I think it is important to keep in mind—I would call what the GSEs historically have done is a little "skimming of the cream," if you will, off of FHA, taking the better risk away from FHA. That forces FHA to have to raise premiums and potentially threatens the viability of FHA, so I do think there is a way that I can make sure that my friend across the street is not being undermined by what Fannie and Freddie are doing.

Mr. BUDD. Thank you.

Final question, in your view, what sort of countercyclical role should FHA play in the market?

Mr. CALABRIA. I think it is important to keep in mind that FHA, Fannie and Freddie, and the Federal Home Loan Banks were actually all created to be countercyclical. They really should be the support there in times of stress, they should be there to put a floor under the market. My view is they should not be leading the charge of lendings over the cliff; they should be there to be the net to catch the market when it goes south.

Mr. BUDD. Thank you, and thank you to each of you.

And with that, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from Pennsylvania, Ms. Dean, is recognized for 5 minutes.

Ms. DEAN. Thank you, Madam Chairwoman, and thank you for holding this important hearing on the question again of the lack of affordable housing, the need for more affordable housing, and the reforms that the Administration seeks. I thank the Secretaries and the Director for being here.

And this is something very important in my district, in suburban Philadelphia. The lack of affordable housing across the spectrum of folks who need affordable housing, so maybe—I know I am at the end of the line here, but I would like to go back and just define the scope of the problem. I will start with you, Director Calabria. Your second line in your testimony, I read with interest: “Too many Americans lack what each of us deserves, an affordable place to call home, whether it is rented or owned.”

Could you help us understand the scope of the problem, the specifics, whether it is rental, home purchases, seniors, rural areas, or underserved? Give us the scope of the problem.

Mr. CALABRIA. It is really across-the-board. We have seen, for instance, in California the increase in homelessness and, of course, it is happening in many other places as well. We have seen an inability to afford rents. This, to me, has broader economic problems as well. Your ability to move somewhere, your ability to move to a New York or a Los Angeles to be able to advance in your career is threatened if you can’t find a house to live in. Of course, I am sure you could talk to any of your junior staff or interns about their difficulty in finding affordable housing when they come to Washington.

So, it impacts your career, it impacts the stability in your life. It is difficult to keep a job if you don’t have stability, so to me, this is a real crisis that is all-encompassing.

Ms. DEAN. It is a core crisis. By the numbers, some of the data that we have seen here show that only one in four people eligible for rental assistance or low-income housing assistance actually receives it. Does that match your data?

Mr. CALABRIA. Correct.

Ms. DEAN. How do we expand and reach out to the other three-quarters of the folks who are suffering under this problem specifically? How do we do it?

Mr. CALABRIA. To me, I think that there are three fundamental constraints going on here, at the risk of alliteration, my three L's: land; labor; and loans. I think we do need broad-based reform and zoning entitlement processes in many areas in the country to try to speed that up.

Second, on labor, we have a distinct shortage, especially of trade contractors. We don't have enough plumbers in this country, don't have enough electricians, don't have enough carpenters. Fill of the money you want out of it, if you don't have somebody there to swing that hammer, it is not going to get built, and we need to focus on that. Of course, my responsibility is the lending side or the loan side, and I think that is an important piece of the puzzle, but I would really emphasize that we need to fix all three of these.

Ms. DEAN. I appreciate that. Is it your ambition to make sure that we do reach out and get the whole host of folks who need affordable housing?

Mr. CALABRIA. Absolutely.

Ms. DEAN. Secretary Mnuchin, is that your ambition also that we would use government wisely and in a limited way to make sure that we are reaching all of those who need homeownership assistance?

Secretary MNUCHIN. Yes, and I think, again, there appears to be bipartisan support on the need for better affordable housing.

Ms. DEAN. But nowhere in your testimony did I hear you or Secretary Carson talk about the gap, the three-fourths of people of absence of units and housing. I heard all of your—I read with interest your issues about reform, making sure we are more efficient.

Mr. Secretary, you said you are recommending more efficient means of delivering that support. How about more abundant means of delivering that support? Are you interested in doing that?

Secretary MNUCHIN. I personally think that is a good goa,l and we would work with Congress to do that. Again, that is part of the reason why our preference is to do congressional legislation and to sit down on a bipartisan basis to agree on these things and how to do it.

Ms. DEAN. Secretary Carson, is it your ambition that we expand our resources to make sure we get everybody affordable housing?

Secretary CARSON. Absolutely. It is one of our highest priorities, and that is why, this past spring, we had the display on the national mall.

It is not a lack of innovation, it is not a lack of entrepreneurship; it is an abundance of barriers that prevent us from being able to use it, and we need to use all of our resources and work together to remove those barriers because we are smart people. We can do it.

Ms. DEAN. My concern is that it seems to me that a lot of the reforms are really an attempt to privatize, to say this is not the government's responsibility.

Back to the Director, you said twice, and I heard you clearly, that in their current condition, Fannie Mae and Freddie Mac will fail in a downturn. Is it your ambition to shore them up?

Mr. CALABRIA. That is my ambition, for that not to happen.

Ms. DEAN. Is it your ambition to shore them off or spin them off, Mr. Secretary?

Secretary MNUCHIN. Again, it is both. We would never spin them off without shoring them up.

Ms. DEAN. So, shore them up and about get rid of them? Privatize?

Secretary MNUCHIN. Shore them up and—again, they are private, but keep them privatized, yes. Get them out of conservatorship and out of receivership.

Ms. DEAN. In the face of three out of four people who need efficient, affordable housing, that is your ambition? That is the trajectory you are hoping to take Treasury?

Secretary MNUCHIN. Again, I think there are two different issues. Affordable housing is part of this issue, but is a broader government issue.

Ms. DEAN. Thank you, Madam Chairwoman.

Chairwoman WATERS. The gentleman from Tennessee, Mr. Kustoff, is recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman, and thank you for convening today's hearing. And thank you to the witnesses for appearing.

Director Calabria, I think Secretary Carson earlier today was asked about manufactured housing, which is also important in my district of Memphis and West Tennessee. In the Housing and Economic Recovery Act of 2008, there is a duty-to-serve provision that singled out the availability of credit for manufactured housing as an underserved area that Fannie Mae and Freddie Mac are required by statute to make a concerted effort to address.

As it relates to the duty-to-serve provision, the Administration's housing finance plan proposes to replace that duty to serve with a more efficient, transparent, and accountable mechanism and to transfer some of these activities to HUD. Could you explain how this would work with respect to manufactured housing with both rural personal property, chattel loans, et cetera?

Mr. CALABRIA. Let me emphasize, and I will note that several years ago, I ran the manufactured housing program at HUD, so I'm very familiar with it, and I do think for much of America, manufactured housing is the most affordable option, and I think we can make a lot of advancements to bring down the cost of housing via manufactured housing, so I'm committed to that.

I can't speak to the details of what Treasury's envisioned. I will leave that to Secretary Mnuchin to discuss, but I do think that we can continue to make sure that Fannie and Freddie have an active involvement in manufactured housing and do it in a way that is safe and sound.

Mr. KUSTOFF. In other words, the GSEs' statutory duty would not be diminished?

Mr. CALABRIA. It is in law today, and I have every intention, as long as it remains in law, to actively carry it out.

Mr. KUSTOFF. Thank you very much, Director.

Secretary Carson, it is good to see you again.

Secretary CARSON. Absolutely. You, too.

Mr. KUSTOFF. I had the honor to have you in Memphis just a few weeks ago as it relates to Opportunity Zones, and in Memphis we have 32 Opportunity Zones, of course, which were created under the Tax Cuts and Jobs Act.

The area that you visited in Memphis was a development called Union Row, which is a $950 million project that is going to include apartments, hotels,and retail and grocery stores. In the remarks that you made at that event, you mentioned the importance of local community involvement and also added benefits such as rising property values.

How do you see Opportunity Zones as a way of addressing affordable housing in Memphis and, of course, I know you also made an affordable housing stop in Memphis before you went to that Union Row project.

Secretary CARSON. Yes. A lot of the Opportunity Zones across the country, the initial starting point might be, for instance, like in St. Louis, an abandoned foundry, and then as they begin to build out, they have to build workforce housing and a lot of the workforce housing, of course, is going to be affordable housing. And we have tailored some of our programs to be able to take advantage or allow builders to take advantage of some of our grant programs.

Instead of just, for instance, a single multi-family unit, we used mixed-purpose units so that they can put commercial units on the first floor. Those are the kinds of things that obviously not only provide housing, but also provide jobs, and of course, they tend to fertilize the area so that other people want to come in and take advantage.

Mr. KUSTOFF. Thank you, Secretary Carson.

Secretary Mnuchin, one thing that I did not mention, the Opportunity Zone in Memphis that was created that I just described, Union Row, is an area with some degree of blight. Of course, in your role as Secretary of the Treasury, you are responsible for certifying these Opportunity Zones. Can you describe, if you can, the impacts on the blighted communities that we are seeing across the country and how Opportunity Zones are addressing those?

Secretary MNUCHIN. First of all, the Opportunity Zones were—the States had the ability to designate Opportunity Zones, and if they fit certain requirements, we certified them. We think that the States are better able to determine where these are appropriate, but yes, I think for the areas that you have described, they have been very beneficial, not just for housing, which is a big part of this, but also for new businesses and businesses being relocated.

Mr. KUSTOFF. Thank you.

I thank the witnesses, and I yield back.

Chairwoman WATERS. The gentleman from Illinois, Mr. Garcia, is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you very much, Madam Chairwoman. And I thank the panelists for being here today.

Inadequate affordable housing is a major issue that people in Chicago face, especially the working-class families that I represent on the southwest and northwest sides of the City.

Rents in America have steadily increased, while working-class people have seen their wages remain stagnant. Rents in the U.S. have gone up by 13 percent while the median household income for renters went up one-half of 1 percent. The homeownership market isn't any better, particularly for communities of color who were hit hardest by the housing crash and had the most foreclosures and devastation to recover from. That is why the role of the GSEs and

FHA are so critical in helping communities regain wealth and homeownership.

I think we are on the same page, but for the record, if you could answer yes or no, the three of you, you also support promoting affordable housing, correct?

Secretary CARSON. Yes.

Mr. CALABRIA. Yes.

Mr. GARCIA OF ILLINOIS. And you believe that government plays a role in achieving housing affordability?

I will take it across-the-board.

Secretary CARSON. Yes.

Mr. CALABRIA. Yes.

Mr. GARCIA OF ILLINOIS. Across-the-board, thank you. In a recent report from the Administration, the FHA noted that its plan seeks to, "ensure the FHA and taxpayers are properly compensated for riskier loans," and this is something that was raised earlier by Representative Wexton. Part of that plan involves introducing tier-based pricing and FHA-guaranteed loans.

I would like to ask Secretary Mnuchin, if he would also share the information that I think you committed to Representative Wexton with me, because we are interested in that also.

But Secretary Carson, tier-based pricing would constitute a change from FHA's current policy, which currently maintains a flat fee without respect to the credit rating of the applicant, correct?

Secretary CARSON. Yes.

Mr. GARCIA OF ILLINOIS. Thank you.

That is disappointing to me. That seems to run counter to the model that has governed FHA for decades. The cross-subsidization of loan applicants with stronger credit with those without creates a risk pool that enables FHA to provide loan guarantees regardless of credit.

So what you are proposing, tier-based pricing, is basically risk-based pricing undermining the entire model that allows FHA to back loans for lower-income families with less credit.

Secretary CARSON. Risk-based obviously means you take the people who are higher-risk individuals and you charge them a bit more. People who are low risk and have developed a very good credit line will have a smaller premium—

Mr. GARCIA OF ILLINOIS. So those who have struggled financially, economically, are going to be charged more—

Secretary CARSON. It depends on how—

Mr. GARCIA OF ILLINOIS. —if their credit is reflective of that experience?

Secretary CARSON. It depends on how you determine the credit and the credit risk.

Mr. GARCIA OF ILLINOIS. Let me switch gears.

Secretary Mnuchin, the Treasury recently recommended that FHFA should revisit the GSEs underwriting criteria for multi-family loans in jurisdictions that adopt rent control laws or other impediments to housing development.

Secretary Carson, your agency noted that rent control laws interfere with local housing markets. Both of you are suggesting some type of penalization for areas that enact rent control laws, is that the takeaway, and what other impediments might you be referring to?

Secretary MNUCHIN. I may have commented on this earlier. First of all, I think rent control has worked in many markets for long periods of time. I think the comment was, in certain markets, there are some very, very drastic changes to the rent control laws, and they may have credit implications for underwriting. So, that was the purpose of that.

Secretary CARSON. And there are multiple impediments, not just the rent control. There are wetlands, historical lands, height restrictions, density restrictions, and zoning restrictions. By the time you add all of those up, it becomes extremely substantial. And that is what is increasing the price so much, particularly when you look at renters. Between 2001 and 2017, the number of families who are significantly burdened in terms of renting has gone up by 45 percent.

Mr. GARCIA OF ILLINOIS. Generally speaking, you can say that. But also, local officials tend to know their communities best.

Thank you very much. I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you. I would like to announce that votes have been called.

I intend to recognize the following Members, and then we will adjourn the hearing.

Mr. Gonzalez, Ms. Ocasio-Cortez, and Mr. Rose.

The gentleman from Mr. Ohio, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman. I certainly appreciate you holding this hearing.

I am under no illusion about the difficult challenges that the witnesses face in attempting to successfully reform our housing finance system and GSEs, while not disrupting the housing market.

One thing is clear, though: Congress has an obligation to work with the Administration and forge a bipartisan path to responsibly address the challenges being discussed today.

Director Calabria, you have testified about the current leverage ratio being around 500 to 1, while big banks are now levered around 10 to 1. In your view, what is the proper target for the Enterprises to be leveraged?

Mr. CALABRIA. A lot less. But I think ultimately, the GSEs represent the same sort of risks to the financial system as other SIFIs, and I think they should be in that ballpark.

Mr. GONZALEZ OF OHIO. Thank you.

One of the things that we have talked about before and that I frankly read, is there is a concern that this plan could be seen as a bailout for the preferred equity holders. And I guess my question would be, what is the functional difference between holding the reserves, let's say, in a dedicated account at the Fed versus—where we can watch them, we know exactly where the cash is, what it is doing and what it is not doing, versus having it on the balance sheet?

Mr. CALABRIA. First of all, let me really emphasize that until they are out of conservatorship, dividends aren't being paid. These aren't payouts to shareholders as we retain earnings. I want to be very clear about that. We are building a buffer to protect these entities in times of loss.

Secretary Mnuchin has said, we haven't gotten to the point of deciding what the next route is, so again, that could be an option.

Mr. GONZALEZ OF OHIO. Okay. Again, what is the functional difference? What is the difference, in your mind, between having a dedicated account at the Fed versus at the GSEs, Secretary Mnuchin?

Secretary MNUCHIN. I just want to clarify, again, although the Treasury is not being paid cash, the amount that we are deferring in cash that will stay in our liquidated preference will go up. So there is no difference, from my standpoint, between having cash in the bank and having an obligation that is owed to us.

Mr. GONZALEZ OF OHIO. Gotcha. And then, Director Calabria, you have talked a lot about—and I think is 100 percent right—that at the current leverage ratio, there is no way these banks could sustain any sort of meaningful downturn.

Could you put some clarity around that? Specifically, how big of a downturn, what sort of stress tests are you running, and where should we be concerned?

Mr. CALABRIA. Sure. I think that they are a bit of an underestimate. Our most recent Dodd-Frank DFAST stress test that was performed for Fannie and Freddie showed that if you had a downturn similar to the last one, you would have to put in, in excess of $40 billion. And again, I don't see how you get that money back. So, these are not small numbers we are talking about.

Mr. GONZALEZ OF OHIO. Yes. Thank you for that.

And then, Secretary Mnuchin, when talking with local stakeholders, they have expressed support for responsibly ending conservatorship and efforts to capitalize GSEs. However, they have expressed some concern about limiting Fannie and Freddie's ability to offer cashout refis, second homes, investment properties, and reviewing overlap between the GSEs and FHA, specifically low-downpayment, high debt-to-income, and high loan-to-value loans.

Preventing the GSEs from offering these products could limit consumer choice and specifically, in regard to FHA, overlap will shrink liquidity at the bottom of the market.

Can you talk about why you recommend these changes and how you view these proposals would benefit the consumer, the taxpayer, and the overall economy?

Secretary MNUCHIN. Again, we are suggesting these be looked at. Just as an example, to take cashout refis, we are not saying to eliminate cashout refis, but obviously when borrowers take cash out, it creates a riskier loan. It used to be this was one of the great savings mechanisms. So, we want to make sure that as the FHFA sets credit, they look at a cashout refi differently than they look at a purchase money mortgage.

Mr. GONZALEZ OF OHIO. Fantastic. Thank you.

And I yield back.

Chairwoman WATERS. The gentlewoman from New York, Ms. Ocasio-Cortez, is recognized for 5 minutes.

Ms. OCASIO-CORTEZ. Thank you, Madam Chairwoman.

And thank you to our witnesses for coming today.

Secretary Carson, it is good to see you again.

Secretary Mnuchin, releasing Fannie and Freddie from conservatorship is one of your top priorities, correct?

Secretary MNUCHIN. I would say housing reform is one of my top priorities. And, again, we have not predetermined whether they go through conservatorship on receivership.

Ms. OCASIO-CORTEZ. Okay. I see here from a Washington Post article, "Fannie Mae and Freddie Mac should be privatized, Secretary of the Treasury nominee says." And it says here that you stated that privatizing Fannie Mae and Freddie Mac is, "right up there on the top 10 list of things we are going to get done."

Do you recall that?

Secretary MNUCHIN. I do. That is accurate. Again, I was just referring to—we do believe they belong in the private sector. That could be through conservatorship or through, as I said, other resolution mechanisms.

Ms. OCASIO-CORTEZ. I see. I understand.

Are you aware that the same day you made those comments, Fannie Mae's share price increased by 46 percent and Freddie Mac's share price jumped by 43 percent?

Secretary MNUCHIN. I was. And I think it was clear the market didn't understand my comments and what they implied. Many times, there is very little liquidity and markets are not efficient.

Ms. OCASIO-CORTEZ. I see.

Just to clarify for the record and for the confidence of the American people, Secretary Mnuchin, would you, your spouse, or any beneficiary of your assets, including your 15 disclosed trusts, stand to receive any financial gain from your plan surrounding the exit of Fannie Mae and Freddie Mac from conservatorship?

Secretary MNUCHIN. Today, no, I have divested all of my assets. And other than—no, I have divested all of my assets. I have no reason to believe I have anything to gain.

Ms. OCASIO-CORTEZ. Okay. Was there any gain from the increase in that share price following those remarks?

Secretary MNUCHIN. I am not aware of it.

Ms. OCASIO-CORTEZ. Okay.

Director Calabria, you have also made clear your intentions to release Fannie Mae and Freddie Mac from conservatorship, with or without congressional action, to provide an explicit government guarantee. And you have already taken steps in that direction by allowing the GSEs to build capital.

There are serious concerns that if you proceed with this plan without Congress, there would be a serious loss of investor confidence, which could result in an unforeseeable disruption to the housing market.

Have you heard any of those concerns from domestic or global investors?

Mr. CALABRIA. Thank you for that question, Congresswoman.

Let me clarify, this is less my intent than my obligation. I am following the law. The law requires me either to fix them and get them out or put them in receivership.

We have certainly heard from a select number of Wall Street firms that would like us not to do that. To be very clear, if the choice is on one hand, I follow the law, or on the other hand, I don't follow the law because Wall Street doesn't like it, I am going to follow the law.

Ms. OCASIO-CORTEZ. Going back to concerns about disruption of the housing market, what are some of those disruptions that have been raised?

Mr. CALABRIA. I think a number of investors, particularly on the asset side of the management market, don't want to see changes in interest rates, because that would undermine their holdings. I think they would like an explicit guarantee.

I guess I should say that in my long years of dealing with Wall Street, I haven't met anybody on Wall Street who doesn't want to take the upside and leave the taxpayer with the downside. That is my consistent experience in working in these areas.

So, to me, I think Wall Street is about taking the upside and the downside.

Ms. OCASIO-CORTEZ. With the information you provide in your testimony, I would like to discuss a matter of rent with you. In the 14th District of New York, an average renter earns about $20 an hour, but they don't earn enough to afford a one-bedroom apartment at fair market rent. Families are looking for stability as household incomes can't keep up with the rising costs of rent.

First and foremost, I want to ask, for someone making about $45,000, what do you think is fair rent for them to pay?

Mr. CALABRIA. If we use the HUD standards, where it is 30 percent of your income, that is one standard. Of course, there are fair market rents that are set at 40 percent. Again, these are HUD standards. We can argue whether those are too much or too little. I would fully agree with the overall premise of, we have a lack of affordable rental housing, not only in New York but in many areas of America. I will note that when we recently changed the multifamily caps, we increased the percent of affordable—

Ms. OCASIO-CORTEZ. I'm sorry. I just need to grab a number, because I am running out of time.

Mr. CALABRIA. You want a number of what I think somebody's rent should be? I think that ultimately should be between them and their landlord.

Ms. OCASIO-CORTEZ. Making about $45,000-a-year, ballpark.

Mr. CALABRIA. I don't think I should be deciding—

Ms. OCASIO-CORTEZ. Do you know anyone who makes $45,000, and kind of what their rent is?

Mr. CALABRIA. That is a little more higher income than somebody paying 45—are you saying 45 in income or 45 in rent?

Ms. OCASIO-CORTEZ. No, somebody making $45,000 a year. What is a ballpark—

Mr. CALABRIA. Let's say if you were a friend of mine and you were making $45,000, what I would suggest to you personally—not as a government official—is I would be happy to say that you probably shouldn't spend more than $15,000 tops on your rent.

Ms. OCASIO-CORTEZ. Thank you very much.

Chairwoman WATERS. Mr. Rose, you are recognized for 5 minutes.

Mr. ROSE. Thank you, Chairwoman Waters. And thank you for calling this hearing.

Before I begin today, I want to reiterate my colleague, Mr. Luetkemeyer's, call for FSOC to ask for a study on CECL. I do believe that would be important.

I agree with many of my colleagues today that housing finance reform is both welcome and long overdue. As has been said many times today, the time to reform our housing finance system is when times are good, not when our system is in a time of crisis.

One thing I have noticed in my brief 10 months here in Congress is that too often, we let the perfect be the enemy of the good. The proposals put forth by HUD and Treasury represent a positive first step on the long path towards reforming our housing finance system.

There are 116 itemized reform recommendations between the 2 reports. Promoting competition and eliminating redundancies between the GSEs and FHA and protecting taxpayers from future bailouts is good policy. It is responsible governance.

The relatively stable housing market we have right now will not last forever. I think we all agree it never does. It stands to reason that members of this committee will not agree on every single recommendation, but we cannot afford to let the perfect be the enemy of the good.

I hope we can put partisanship aside so we can make our housing finance system more resilient before we reach another crisis.

One issue I was pleased to see addressed in HUD's housing finance reform plan was that of manufactured housing. Manufactured housing is incredibly important to the 6th District of Tennessee, which I am proud to represent. According to the Manufactured Housing Institute, in the United States, manufactured homes account for 7.1 percent of occupied housing units. In Tennessee, they account for 10.5 percent, and in my district, 13 percent.

Secretary Carson, I appreciate your continued attention to the HUD programs that serve manufactured housing, and comments you have made in prior testimony about the need to make adjustments to the Title I and Title II programs to better serve manufactured housing.

I am concerned that the volume of manufactured home loans being supported by FHA continues to decline, however. Among the Administration reforms mentioned in HUD's report is the need to publish updated Title I standards that address regulatory burdens of participating in the program.

Secretary Carson, what updates would improve the Title I program and what can be done, either legislatively or administratively, to expedite these updates?

Secretary CARSON. We have greatly expanded the manufactured housing office to look at all of the issues that would facilitate not only the construction but the safety measures associated with them, combining some of the updates to accelerate the process. And we will continue to do that, fully recognizing that this is one of the major players when it comes to reducing the cost of housing, not only in the rural areas but throughout the nation.

That, coupled with looking at modular housing and other newer techniques, we have impanelled a group of people to look at all of the newer techniques and assess those. And manufactured housing is a huge portion of that.

Mr. ROSE. Thank you, Secretary Carson.

Director Calabria, can you give me an update on the chattel loan pilot program that the GSEs included in their Duty to Serve (DTS) plans?

Mr. CALABRIA. Thank you. We are currently reviewing that. The GSEs have requested modifications to their current DTS plans. And so we are going to put those out, have some listening sessions, and get some comments back. But we are currently under review for that.

Mr. ROSE. What is being done to ensure that the pilot programs discourage cherrypicking the best loans so that the pilots are not significantly disruptive to the other market players?

Mr. CALABRIA. Thank you for that. I think it is an incredibly important question.

My objective over time is that either pilots prove themselves to be successful and then they grow—I think it is problematic if you have long-running pilots to which select industry players have access that others do not have. I think they should be open to all if they work. If they don't work, then we intend to end them.

So, again, I would agree that I think where we need to go is to figure out how this is a program that everybody else can participate in on a level playing field, if that makes sense.

Mr. ROSE. Finally, Dr. Calabria, there is one final concern I would like to raise with you. And it is one that I hear often back home. You and I have discussed the issue before, and that is to rein in excessive compensation packages, especially at the GSEs, and especially while they are still in conservatorship.

Could you say a word about that?

Mr. CALABRIA. We recently, I guess a couple of months ago, made some changes to compensation practices at GSEs to better align them to be in a conservatorship.

Mr. ROSE. Thank you. I yield back.

Chairwoman WATERS. Thank you. I would like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is adjourned.

Thank you very much.

[Whereupon, at 1:32 p.m., the hearing was adjourned.]

A P P E N D I X

October 22, 2019

Testimony Before the U.S. House of Representatives Committee on Financial Services
"The Future of Affordable Housing in America Depends on Mortgage Finance Reform"
Dr. Mark A. Calabria – Director, Federal Housing Finance Agency
Tuesday, October 22, 2019

Chairwoman Waters, Ranking Member McHenry, and distinguished members of the Committee, thank you for the invitation to appear at today's hearing.

Too many Americans lack what each of us deserves: an affordable place to call home, whether it is rented or owned.

This is a national problem that exists in communities across the country. But it has local roots. A fundamental cause of the housing affordability problem are local policies that make it harder and more expensive to build new housing.

Examples include zoning and land-use restrictions, environmental regulations, onerous building codes, and permitting requirements. These policies disproportionately hurt low-income Americans.

Our affordability problems will not be solved until local governments remove these impediments that limit the supply of affordable housing in their communities.

Our housing finance system also has a role to play. Fannie Mae and Freddie Mac ("the Enterprises") exist to ensure mortgage credit availability through the economic cycle.

This mission is critical to supporting sustainable homeownership and affordable housing, especially when the economy is weak and mortgage credit tightens.

But in their current condition, Fannie Mae and Freddie Mac will fail in a downturn. And as we learned in 2008, when Fannie and Freddie fail, America's housing affordability problems get even worse.

Together, Fannie and Freddie own or guarantee $5.6 trillion in single and multifamily mortgages, nearly half the market. Yet until very recently, they were limited to just $6 billion in allowable capital reserves. This put their combined leverage ratio at nearly a thousand to one.[1]

Last month, Secretary Mnuchin and I agreed to allow the Enterprises to retain capital of up to $45 billion combined. This is a significant step forward. Retaining just one quarter's net worth has improved their leverage ratio by roughly half. But it still stands at nearly five hundred to one. By contrast, the nation's largest banks have an average leverage ratio of around ten to one.[2]

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[1] See Exhibit 1.
[2] See Exhibit 2.

Combined with these low capital levels, credit risk has been rising in the loans purchased by the Enterprises in recent years, with some risk factors exceeding the levels observed in 2004, the pre-crisis year that is a useful comparison case to today.[3] While average borrower credit scores are better today – 746 in the first half of 2019 compared to 706 in 2004 – the Enterprises' shares of low down payment and high debt-to-income mortgages are now higher than in 2004. Among 2019 Enterprise loan acquisitions, 20 percent had down payments of 5 percent or less, nearly double the rate in 2004, and nearly 30 percent had high debt-to-income ratios (exceeding 43 percent) compared to 27 percent in 2004.[4]

This pro-cyclical pattern of increasing mortgage risk harms first-time and lower-income borrowers. It makes it easier for them to buy homes beyond their means when the economy is strong, and harder to keep those homes when the economy is weak. More than a quarter of Enterprise acquisitions in the first half of 2019 were first-time buyer loans compared to just 10 percent in 2004.[5]

Borrower debt-to-income (DTI) is a widely used measure of ability to pay that is adversely impacted in a weak economy, when incomes tend to stagnate or decline, and household debt levels tend to stay the same or increase. Although debt-to-income ratios were initially low following the recession, between 2016 and 2018, the Enterprises nearly doubled their purchasing of loans with greater than 43 percent DTI.[6]

Market-wide serious delinquency rates in 2019 are low, between 0.6 and 0.7 percent. But the same was true in 2004. Delinquency rates today are a function of strong labor markets and rising house prices. The underlying risks in the system rarely appear until it is too late.

Regardless of loan quality, there will be defaults when the tide turns and, at their current levels of capital, Fannie Mac and Freddie Mae will fail in a downturn.

Our housing finance system is supposed to serve homeowners and renters while protecting taxpayers. Currently, it fails on both counts.

The reform plans that the Departments of Treasury and Housing and Urban Development (HUD) released last month will help address these problems. They aim to build a more resilient housing finance system that protects taxpayers and ensures the stable mortgage access upon which affordable housing depends.

Chairwoman Waters, I strongly share the principles for housing finance reform that you laid out at the beginning of this Congress. The Treasury and HUD plans are broadly consistent with your principles:

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[3] According to inflation-adjusted house prices, the current point in the housing cycle is similar to 2004 – a point in time where real prices had been rising for about 7.5 years, and roughly 2.5 years before the downturn in house prices. While similar in terms of house price growth, 2004 and 2019 differ in terms of mortgage activity. Purchase mortgages represented more than two-thirds of Enterprise acquisitions in the first half of 2019, while refinances were more prevalent in 2004, comprising nearly 60 percent of acquisitions.

[4] Statistics on credit risk are from proprietary Enterprise data reported to FHFA.

[5] Ibid.

[6] Ibid.

- "maintaining access to the 30-year fixed rate mortgage;
- ensuring sufficient private capital is in place to protect taxpayers;
- providing stability and liquidity so that we can withstand any future financial crisis;
- ensuring a smooth transition to a new finance system;
- requiring transparency and standardization in a way that ensures a level playing field for all financial institutions, especially credit unions and community banks;
- maintaining access for all qualified borrowers that can sustain homeownership and serving homeowners of the future; and
- ensuring access to affordable rental housing."[7]

These principles, which I believe are widely shared by members of this Committee, are reflected in my top priorities at FHFA. First, cement FHFA as a world-class regulator so as to ensure Fannie Mae and Freddie Mac operate in a safe and sound condition. Second, end the 11-year conservatorships. Third, foster competitive, liquid, efficient, and resilient national housing finance markets.

Since this is my first appearance before the Committee in my capacity as FHFA Director, I would like to reiterate a commitment I made in my nomination hearing before the U.S. Senate Committee on Banking, Housing, and Urban Affairs. For every decision I have faced or will face, including those regarding projects or initiatives that predate my confirmation as Director, my first question will always be: "what does the statute say?"

My role as Director of FHFA is to carry out the clear intent of Congress. Article I, Section 8 of the United States Constitution states, "All legislative powers herein granted are vested" – and vested exclusively – "in a Congress of the United States." By contrast, the powers and responsibilities of FHFA are limited to faithfully executing the laws, which apply equally to everyone at FHFA without exception.

For instance, the Housing and Economic Recovery Act of 2008 directs the FHFA Director to release the Enterprises from conservatorship through one of three mechanisms: "reorganizing, rehabilitating, or winding up [their] affairs."[8] Therefore, ending the Enterprise conservatorships is one of my top priorities first and foremost because it is what the statute requires.

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[7] U.S. House Committee on Financial Services, "Waters Outlines Agenda in First Policy Speech as Committee Chairwoman," January 16, 2019. Accessed on October 17, 2019: https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=401718

[8] 12 U.S.C. § 4617(a)(2).

A precondition for responsibly ending the conservatorships is that the Enterprises must be well-regulated and well-capitalized, such that once Fannie Mae and Freddie Mac exit, they never have to return. To achieve this objective, since my tenure as Director began just over 6 months ago, FHFA has taken several important steps, summarized below, to strengthen the Agency and improve the resilience of our nation's mortgage finance system.

Cementing FHFA as a world-class regulator

A key source of FHFA's success is our commitment to diversity. FHFA has one of the most diverse workforces amongst federal financial regulatory agencies. To cement FHFA as a world-class regulator, we are strengthening our commitment to minority and women inclusion in our examination processes, hiring practices, and procurement and supplier policies. For instance, FHFA recently created and approved funding for a new executive Associate Director position within OMWI for diversity and inclusion examinations of all FHFA's regulated entities.

Prior to ending the conservatorships, FHFA's supervision of the Enterprises must be strong and well-executed. All supervisory and oversight procedures and systems must ensure that FHFA's examination work is consistently rigorous, timely, and effective, and that additional resources are efficiently allocated to meet the needs of critical areas such as risk modeling and information technology. Over the past 6 months, FHFA's Enterprise examination program, which includes on-site examiners at both Fannie Mae and Freddie Mac, implemented a range of examination plans aimed at ensuring safety and soundness.

First, FHFA accounting experts continued their oversight of the Enterprises' adoption of the new Current Expected Credit Loss (CECL) accounting standard. Second, FHFA published guidance to clarify certain supervisory expectations, providing supplemental detail to the Agency's Prudential Management and Operating Standards. Third, FHFA issued new advisory bulletins addressing business resiliency management, fraud reporting by Fannie Mae and Freddie Mac, and Enterprise-wide compliance risk management.

In addition to the supervision and regulation of the Enterprises, a vital role of FHFA is to oversee the Federal Home Loan Bank System. Since my tenure as Director began, FHFA's Division of Bank Regulation has issued reports of examination for 7 of the eleven Federal Home Loan Banks. These examinations concluded that the condition and operations at all 7 Banks were satisfactory. They also identified deficiencies in certain areas and put forward recommendations on how to address them in the normal course of business. In addition, 5 Community Investment Program examinations were completed, including advances and grants for housing and economic development.

Key Policy Actions

At the same time that FHFA has been strengthening our regulatory and supervisory capabilities the past 6 months, the Agency has also implemented new policies that focus the Enterprises and the Federal Home Loan Banks on fulfilling their statutory missions in a safe and sound manner that protects taxpayers.

Revised Multi-Family Caps to Prioritize Affordable Housing

On September 13, 2019, FHFA revised the Enterprise multi-family loan purchase caps to ensure a strong focus on their statutory mission while not crowding out private capital. The new caps provide ample support to the multi-family market with a combined $200 billion in purchase capacity through 2020, while closing loopholes that allowed the Enterprises to displace private capital where such other sources of financing were available. Importantly, the new cap framework increased the levels of the Enterprises' multi-family business that is mission-driven, affordable housing to at least 37.5 percent.

Finalized Credit Score Rule to Support Sustainable Homeownership

On August 16, 2019, FHFA issued a Final Rule on the Validation and Approval of Credit Score Models, fulfilling the congressional mandates of Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. The Final Rule requires a four-phase process for validation and approval of credit score model(s):

1. Solicitation of applications from credit score model developers;
2. Submission and initial review of submitted applications;
3. Credit score assessment; and
4. Enterprise business assessment.

Issuing this Final Rule is an important step toward ensuring that the Enterprises utilize tools that accurately measure risk, so that borrowers have a safe and sound path to homeownership and taxpayers are protected.

Protected Equitable Market Access for Small Lenders

On September 16, 2019, FHFA issued formal policy guidance to the Enterprises prohibiting volume-based guaranty fee discounts in order to provide a level playing field for small lenders. A central reason for the existence of Fannie Mae and Freddie Mac is to provide small lenders, community banks, and credit unions with access to the secondary market. Large market entities have access to varied sources of liquidity and the scale to access Wall Street liquidity through securitization. Smaller lenders rely on the liquidity provided by the Enterprises. But access alone is not sufficient. Small lenders must have access at terms that are equitable with larger entities.

In the lead up to the 2008 financial crisis, large financial institutions that controlled substantial market share received significant guaranty fee discounts from the Enterprises because of their volume. These volume-based discounts disadvantaged smaller institutions and drove consolidation that was not healthy for the market. FHFA's formal policy guidance implements the principle of "same rate of the return for the same risks, regardless of size." This principle supports equitable access for small lenders while appropriately allowing for guaranty fees to reflect differences that may exist in the risk profiles between lenders of different size.

Ended Enterprise Pilot That Fell Outside Core Guaranty Business

FHFA has been actively reviewing Enterprise pilots and new programs to ensure that they align with activities core to the Enterprises' guaranty business and statutory mission, mitigate risk, and are essential to end the conservatorships. On September 18, 2019, FHFA announced the end of the Enterprises' Mortgage Servicing Rights (MSR) Financing Pilot Program. The MSR pilot, begun in 2018, provided financing to non-bank servicers. FHFA determined that a wide assortment of alternative sources of private capital and financing were readily available. The pilot, in which only Freddie Mac chose to participate, is being wound down in an orderly manner.

Began Transition Away from LIBOR to Alternative Reference Rates

The anticipated end of the availability of the London Interbank Offered Rate (LIBOR), and the need to transition to alternative reference rates, is a major issue for the markets and FHFA's regulated entities. Therefore, ensuring the Federal Home Loan Banks (Banks) and the Enterprises are able to reduce risk exposure and prudently expedite the transition away from LIBOR is a policy priority for FHFA.

On September 27, 2019, FHFA sent a supervisory letter to the Banks instructing them that, as of December 31, 2019, they should stop purchasing investments in assets tied to LIBOR with a contractual maturity beyond December 31, 2021. The letter further instructed that, as of March 31, 2020, the Banks should no longer enter into all other LIBOR-based transactions involving advances, debt, derivatives, or other products with maturities beyond December 31, 2021, with only very limited exceptions granted by FHFA.

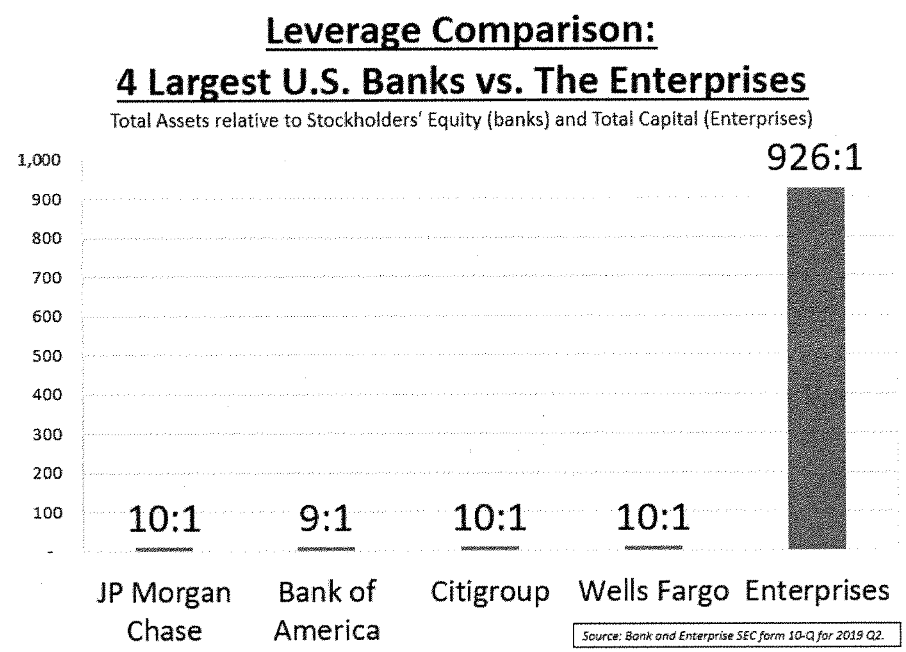
Conclusion

There is broad, bipartisan agreement today that our nation's housing finance system is in urgent need of reform. There is no denying that the status quo poses significant risk to taxpayers, homeowners, renters, and the entire financial system. There is also a consensus building around the principles toward which we can work, including preserving access to the 30-year fixed-rate mortgage, building private capital to stand between mortgage credit risk and taxpayers, and supporting sustainable homeownership and affordable housing.

As Director of FHFA, I will continue to take action, consistent with my statutory responsibilities and the statutory mission of the entities I regulate, to build a stronger, more resilient mortgage finance system. And I stand willing to work with all who share these goals.

Thank you again for the opportunity to testify today. I look forward to answering your questions.

Exhibit 1[9]

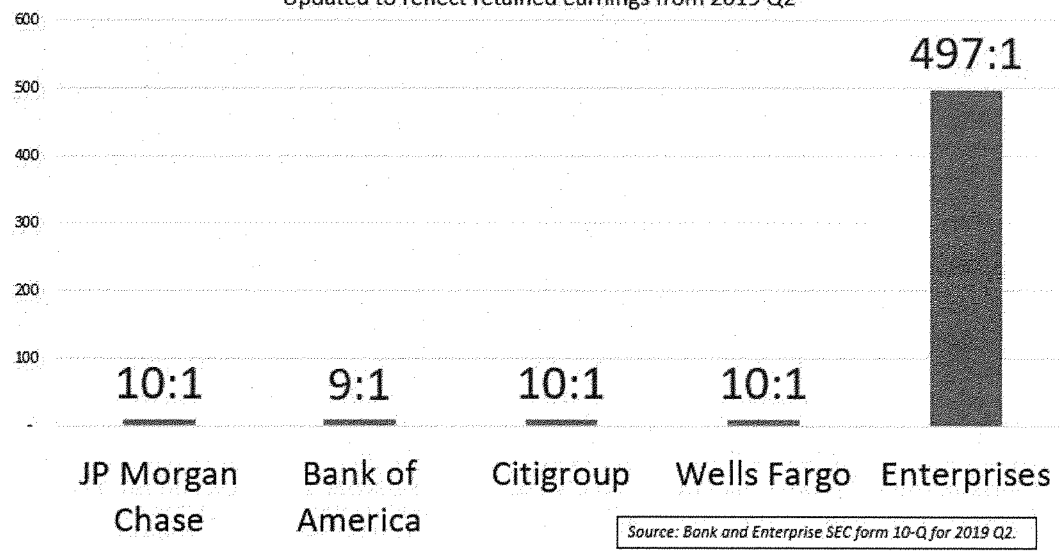


[9] Large U.S. banks and the Enterprises are subject to separate leverage ratio requirements that use differing components, both in terms of what each firm can use to meet its respective requirements and which balance sheet measures the requirements are based on. To provide a simplified version of the actual requirements for the purposes of comparison, this graph uses Stockholders' Equity for the banks and Total Consolidated Assets (Total Capital) for the Enterprises.

Exhibit 2

Leverage Comparison - 2019 Q2 Update: 4 Largest U.S. Banks vs. The Enterprises

Total Assets relative to Stockholders' Equity (banks) and Total Capital (Enterprises)
Updated to reflect retained earnings from 2019 Q2



Testimony of Benjamin S. Carson, Sr.
Secretary of Housing and Urban Development

House Committee on Financial Services

October 22, 2019

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, thank you for the opportunity to appear before you today to discuss how the U.S. Department of Housing and Urban Development (HUD) will support this Administration's effort to reform the nation's housing finance system.

In the years since the financial crisis, the Federal Government has continued to play an outsized role in the nation's housing finance system, and it is imperative Congress acts with the Administration to refocus Federal agencies insuring and guaranteeing mortgages to their core role of supporting equity and wealth building through sustainable homeownership and ensuring these government programs do not overlap with, and crowd out, fully private capital in the conventional mortgage market.

To this end, I am pleased to present an overview of HUD's housing finance reform (HFR) plan that was submitted to the President on September 5, 2019. Housing finance reform is a key priority of this Administration, and, as recognized in the March 27, 2019 Presidential Memorandum on Federal Housing Finance Reform (Presidential Memorandum), it is crucial to advance reforms that acknowledge the integral role HUD plays in the nation's housing finance system.

HUD supports millions with affordable housing opportunities through its rental assistance and manufactured housing programs, and the Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) provide credit access and liquidity in the mortgage market. FHA provides credit enhancement and regulatory oversight for a portfolio exceeding $1.4 trillion, and importantly serves as a countercyclical buffer during times of stress, and GNMA guarantees more than $2 trillion in mortgage-backed securities (MBS) with the full faith and credit of the United States of America, facilitating liquidity in the housing market and contributing to the availability of mortgage credit for qualified borrowers.

During the financial crisis, and because of the policies of the previous Administration, FHA's and GNMA's balance sheets swelled, growing by approximately 350 percent and 400 percent, respectively, between fiscal years (FY) 2007 and 2018. Federal policymakers should take steps to enable both FHA and GNMA to refocus on their core missions and make sure both agencies have the tools needed to manage their significant portfolios, strengthening their ability to support the housing market and minimizing the likelihood of any future taxpayer funded bailout.

Reform will reduce the Federal Government's outsized role in housing finance and prevent its activities from crowding out the private sector. Congress must work with the Administration to: refocus FHA to its core mission of serving low- and moderate-income families, including first-time homebuyers (FTHBs), that cannot be fulfilled through traditional underwriting; protect American taxpayers from bailouts; provide FHA and GNMA with the tools they need to manage risk of their oversized portfolios; and provide liquidity to the housing finance system.

Pillar I: Refocus FHA to its Core Mission

Targeting Programs to Borrowers Not Served by Traditional Underwriting

The Presidential Memorandum directed HUD to recommend reforms that would allow FHA to best target its programs to borrowers not served by traditional underwriting. Historically, this has been FHA's most important contribution to the American housing market: facilitating earlier entry points into homeownership for these families, particularly FTHBs, than conventional mortgage loans with higher downpayment requirements. Without FHA mortgage insurance, many of the low- and moderate-income, minority, and FTHBs supported through the agency's programs would lack access to affordable mortgage credit. In recent years, in the aftermath of the financial crisis, the share of FHA-insured purchase mortgage activity for FTHBs has ranged between 75 percent and 83 percent of total annual purchase loan endorsements.

Refocusing on the core mission will strengthen FHA's ability to help creditworthy borrowers build equity, avoid foreclosure, and protect taxpayers. The benchmark for success of FHA's programs should be ensuring that borrowers are receiving financing that is appropriate, sustainable, and optimized for long-term homeownership. To this end, HUD has proposed the implementation of a "Homebuyer Sustainability Scorecard" (Scorecard) that would be used by FHA to measure the performance of loans to low- and moderate-income borrowers and FTHBs. The Scorecard will track the percent of mission borrowers who default, return to renting, refinance out of an FHA loan, remain in an original FHA-financed home, and monitor the risk associated with secondary financing (i.e., downpayment assistance (DPA)). Moreover, FHA will use the Scorecard to evaluate additional underwriting criteria to ensure that new lending within its single-family portfolio remains consistent with FHA's mission. With the Scorecard, FHA will change the measure of success by no longer touting the number of loans it insures and instead, as with other HUD programs, tracking whether its borrower participants are improving with FHA support.

It is also important FHA support sustainable homeownership; which FHA can support in part through mortgage products that carry terms that accelerate equity accumulation. After all, faster accumulation of equity benefits borrowers. To achieve this objective, HUD's plan recommends FHA undertake the following reforms: 1) conduct rulemaking to clarify the statutory prohibitions on DPA providers that financially benefit from a mortgage transaction; 2) examine incentives to make shorter-term mortgages that accelerate equity accumulation more attractive to FHA's mission borrowers; 3) ensure the agency's programs and policies do not incentivize negative borrower behavior such as equity stripping via cash-out refinances; and 4) examine the overall impact of repeat borrowers on the Mutual Mortgage Insurance Fund (MMIF) and ensure these loans are consistent with the agency's mission.

Define Roles for Government-Supported Programs through Better Coordination

A central principle of the Administration's HFR plan is that Federal mortgage credit policies should be better coordinated in order to allow qualified borrowers to access responsible and affordable options. Coordination ensures that there is not unhealthy and irresponsible competition between government-supported programs, which can lead to lower underwriting standards, increase risk to taxpayers, and threaten the long-term availability of credit to qualified borrowers. The government-sponsored enterprises (GSE), which back a substantial portion of the nation's mortgage debt, should not be able to selectively choose from the FHA portfolio and leave taxpayers with the riskiest borrowers.

Uncoordinated policies create incentives that encourage entities to work at cross-purposes, resulting in little or no change in overall access to credit while increasing taxpayer exposure to uncompensated risk. As discussed in HUD's plan, the FHA program is primarily utilized by FTHBs who cannot be served through traditional underwriting, as it generally accepts more risk and provides low downpayment borrowers greater leverage than allowable in GSE programs while also offering government-subsidized pricing.

As proposed in our plan, FHA and FHFA will coordinate to ensure that the GSEs and FHA serve defined roles within the marketplace. HUD and FHFA should develop and implement a specific understanding as to the appropriate roles and overlap between the GSEs and FHA, for example, with respect to cash-out refinances, conventional-to-FHA refinances, and loans to FHA repeat borrowers. Moreover, HUD has recommended that Congress establish FHA, the Department of Veterans Affairs (VA), and the Department of Agriculture (USDA) - the government-insured mortgage loan programs - as the sole source of low downpayment financing for borrowers not served by the conventional mortgage market.

Provide Regulatory Certainty to FHA Lenders

FHA strives to be clear in its guidance on compliance and legal enforcement matters and will not tolerate violations of its program - those who seek to defraud borrowers and taxpayers, as well as those who make routine (and often material) errors that put strain on the agency's resources. Additionally, FHA makes it a top priority to adhere to the rule of law, and this means the agency's view of materiality should be clearly communicated.

FHA participants and advocacy groups have called for clarification of the process by which HUD and the Department of Justice (DOJ) consider whether severe financial penalties through the pursuit of False Claims Act (FCA) remedies is appropriate for minor and putatively immaterial errors. HUD will prioritize improving certifications to which lenders attest for each FHA-insured loan, as well as lenders' annual certifications. These certifications, along with updates to FHA's defect taxonomy in order to clearly align the severity of loan underwriting defects with proposed remedies, will provide the needed certainty and clarity on FHA's requirements. HUD also will ensure its views of materiality with respect to potential violations of the FCA are clearly shared through formal consultation with DOJ.

Pillar II: Protect American Taxpayers

Strengthen FHA Risk Management Systems and Governance

With mortgage insurance on loans over $1.4 trillion in unpaid principal balance (UPB) and more than $2 trillion in MBS guaranteed by taxpayers, FHA and GNMA, respectively, must ensure their business and operational practices protect American taxpayers. Meeting this duty also is essential to both agency's respective missions, and if either does not operate in a fiscally responsible manner, HUD's ability to provide affordable and sustainable mortgage credit for borrowers is severely jeopardized. FHA must maintain an appropriate level of capital reserves in the MMIF, and it is unacceptable for the agency to ever again require a draw on taxpayer funds to sustain its book of business, as it did in the previous Administration. Thus, FHA should strengthen its governance and build its capital ratio well above the statutory two percent minimum safeguarding the agency against episodes of market distress.

To ensure protection of the American taxpayer, modernizing FHA risk management capabilities is critical. As the size of FHA's portfolio has not returned to pre-crisis levels and taxpayers continue to bear increased risk, now is an appropriate time to develop and implement a framework that will better allow the agency to monitor current, emerging, and future risks across credit cycles.

To accomplish these risk management objectives, HUD has proposed the following key reforms: a sound risk-based capital regime framework, credit-risk sharing capability, in addition to inter-agency coordination on credit policy and counterparty information exchange. First, HUD's plan recommends that Congress direct the Department to formally evaluate options, feasibility, and the economics of a credit-risk transfer (CRT) program similar to those recently implemented by the GSEs – these programs could be effective ways for FHA to reduce the overall risk to taxpayers in FHA's mortgage insurance programs while still serving HUD's mission borrowers. Second, HUD proposes that Congress also direct FHA to more effectively manage lender counterparty risk in future books by authorizing such additional remedies as appropriate. HUD has further proposed FHA adopt sound risk-based capital regimes for both the MMIF and the General Insurance/Special Risk Insurance (GI/SRI) Fund, managing risk exposure to defined stressed scenarios and ensure that FHA does not inappropriately compete with the GSEs or private capital. Last, HUD recommends FHA pursue an inter-agency agreement with other government agencies (including GNMA and FHFA) involved in mortgage insurance and mortgage securitization on counterparty risks.

Improve Financial Viability of the Home Equity Conversion Mortgage (HECM) Program

The HECM program, which has supported millions of American seniors to "age in place," has suffered significant financial distress in recent years. At the end of FY 2018, FHA's HECM portfolio had an economic net worth of negative $13.63 billion and a standalone capital ratio of negative 18.83 percent. Financial volatility within the HECM program remains a constant challenge for FHA, despite changes to the program's principal limit factors and insurance premiums in 2017, and the implementation of an appraisal inflation risk mitigation policy in 2018, both of which have been directionally positive on the program's fiscal solvency.

To continue shoring up the HECM program and best ensure these mortgage products remain a viable option for America's seniors that desire to "age in place," HUD has proposed several key reforms. First, HUD recommends Congress reform the loan limit structure in the HECM program to reflect variation in local housing markets and regional economies across the U.S. instead of the current national loan limit set to the level of high-cost markets in the forward program ($726,525 for calendar year 2019). Second, HUD proposes Congress set a separate HECM capital reserve ratio and remove HECMs as obligations to the MMIF – reforms that would provide for a more transparent accounting of the program costs and decrease the cross-subsidization that occurs with mission borrowers in the forward mortgage portfolio. Third, HUD proposes FHA eliminate HECM-to-HECM refinances as these loan transactions result in greater appraisal inflation, increasing program costs, and negatively impacting GNMA-guaranteed HECM MBS (HMBS) due to quick "churn" in pool participations.

Eliminating Regulatory Barriers to Affordable Housing Including Manufactured Housing

Homeownership is a vehicle for many families to put down roots, become active in their communities, and build wealth for future generations. However, overregulation of housing construction has been a key factor in supply failing to keep pace with growing demand, resulting in many creditworthy FTHBs unable to afford the purchase of entry-level housing. On June 25, 2019, the President continued his historic deregulation campaign by signing an Executive Order establishing the White House Council on Eliminating Regulatory Barriers to Affordable Housing (Council). As the Chairman of this Council, I will build on the President's commitment to hardworking Americans by reducing overly burdensome regulations that artificially raise the cost of housing development that directly lead to the undersupply of affordable housing and will engage with state, local, and tribal partners to help them do the same.

Manufactured housing comprises 9.5 percent of the total single-family housing stock and, along with other innovative housing solutions, plays a vital role in meeting the nation's affordable housing needs. Policies that exclude or disincentivize the utilization of innovative housing construction homes can exacerbate housing affordability challenges because this kind of housing potentially offers a more affordable alternative to traditional site-built housing without compromising building safety and quality.

HUD will elevate the Office of Manufactured Housing Programs and appoint a Deputy Assistant Secretary to lead it and other innovations in housing. FHA also will consider innovative proposals to modify single-family housing mortgage finance underwriting to further stimulate additional supply of entry-level housing, including manufactured housing. To encourage innovation in manufactured housing, HUD will create a formal framework for identifying and evaluating new building, construction, and design developments and ensuring that HUD's regulations do not unnecessarily impede their adoption.

Pillar III: Provide FHA and GNMA the Tools to Appropriately Manage Risk

Today, FHA is responsible for managing a $1.4 trillion mortgage insurance portfolio with a fiduciary duty to protect taxpayers from costly bailouts. To fulfill this duty to taxpayers and ensure it continues to provide affordable access to mortgage credit for mission-focused borrowers, FHA needs some independence from broader HUD protocols that govern staffing, procurement and information technology (IT). To this end, HUD recommends that Congress enact legislation that would restructure FHA as an autonomous government-owned corporation within HUD. Moreover, to the extent administrative reforms are insufficient to address the procurement challenges at FHA (and GNMA), HUD proposes that Congress provide new statutory acquisition authorities for the Department, particularly to address instances where material underperformance of contracting vendors results in substantial quality deficiencies and costs.

FHA also continues to operate on antiquated technology platforms that inhibit the agency's ability to appropriately manage risk and fulfill its fiduciary duty to taxpayers. FHA has already developed a detailed technology roadmap that will guide the development of a single platform and baseline architecture to cover all aspects of the mortgage process, from loan origination, through endorsement, servicing, claims, and, as required, disposition. Overall, the investment in the new single platform structure will allow FHA to better adapt to changing industry, regulatory, and statutory requirements; the modernized systems will be data-driven, and ultimately allow FHA to fully digitize the mortgage process, opening doors to significantly more refined risk analysis and management. To this end, HUD has recommended that FHA explore agreements to share technology with GNMA and other government-supported mortgage programs, including the GSEs, when feasible. Additionally, HUD recommends that Congress appropriate sufficient funds for FHA to complete its multi-year, single-family IT modernization effort.

Pillar IV: Provide Liquidity to the Housing Finance System

Following the financial crisis, GNMA's outstanding MBS guaranty portfolio swelled nearly fourfold to over $2 trillion. This substantial growth in GNMA's guaranty portfolio has been concurrent with the increase in the combined mortgage insurance and guaranty programs of FHA and VA. Then, as now, GNMA has been able to effectuate its mission because of the full faith and credit guaranty of the Federal Government.

The GNMA guaranty provides for the timely payment of pass-through income (generally principal and interest) to security holders of GNMA-guaranteed MBS backed by pools of mortgages insured or guaranteed by Federal agencies, including FHA, VA, and USDA. The "last position" guaranty in mortgage securitization that GNMA covers in its MBS guaranty program is an important element of potential reform of the broader housing finance system. As described in the U.S. Department of the Treasury's HFR report, and also pursuant to the Presidential Memorandum, GNMA could—if authorized by Congress—extend its explicit guaranty to MBS backed by conventional single family and multifamily housing mortgages, as it has already gained the experience of administering, and managing the growth of, its MBS-guaranty portfolios.

In addition to this potential future role for GNMA in the nation's housing finance system, HUD has recommended that Congress pass legislation granting the agency the authority to administratively adjust its guaranty fee within a narrow, permissible range. This guaranty fee provides the funds from which losses would be paid if GNMA needed to step in to remit funds to security-holders as the result of an issuer's failure to do so. GNMA believes that the authority to administratively adjust its guaranty fee within a narrow, permissible range, would ensure that such fees are adequate for the risks in the program and sufficient for GNMA to meets its statutory obligations under extreme circumstances.

Conclusion

The Presidential Memorandum provides an opportunity for Congress and the Administration to ensure FHA and GNMA serve their important missions effectively, responsibly, and sustainably while taking care to minimize overlap in the nation's housing finance system. FHA should focus on helping its core mission borrowers become sustainable homeowners while minimizing risk to the taxpayer to the greatest extent possible and providing a path for borrowers to graduate from government-supported programs. HUD continues to work on administrative reforms absent legislation so that FHA and GNMA better serve low- and moderate-income borrowers unable to access conventional financing, but Congress must join efforts in improving these agencies' service of this critical segment of the market. For too long FHA and GNMA have operated somewhat isolated from the rest of the housing finance system and I welcome Congress's participation as this Administration reforms the agencies to better fulfill their responsibilities to borrowers and the American taxpayers.

Statement of Secretary Steven T. Mnuchin
Department of the Treasury
Before the Committee on Financial Services
United States House of Representatives
October 22, 2019

Treasury's Plan to Support Affordable Housing

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, I am pleased to be with you today to discuss the Department of the Treasury's Housing Reform Plan.

Last month, my colleagues and I testified before the Senate Banking Committee after the release of the Plan. The comments and legislative frameworks we have seen from members of both parties reflect bipartisan agreement on the need for legislative action, and on general principles for reform. I am hopeful that with some good-faith discussions, Congress and the Administration will act in a comprehensive manner to support affordable housing, appropriately tailor the Federal government's influence over the housing finance sector, protect taxpayers from future bailouts, and foster competition that will benefit consumers.

This is why I was surprised and disappointed by the title of this hearing, which asks whether the Administration plans "an end to affordable housing." To be clear, Treasury does not propose, and indeed opposes, reducing or eliminating the government-sponsored enterprises' (GSEs) longstanding support for affordable housing. I am grateful for the opportunity to clarify Treasury's recommendations here today and to explain how our plan will preserve support for affordable housing, while also improving the efficiency, transparency, and accountability of the mechanisms for delivering that support.

Treasury's plan advocates for continued government backing for, and widespread availability of, the 30-year fixed-rate mortgage loan, and the GSEs or their successors should continue helping to fund multifamily housing for low- and moderate-income and other renters. In addition to this general support for affordable housing, the GSEs have at least four key statutory mandates to promote access to affordable mortgage credit for historically underserved borrowers and renters:

1. A "duty to serve" focused on three specific underserved markets—manufactured housing, affordable housing preservation, and rural markets.[1]
2. A requirement to make certain periodic contributions to the Housing Trust Fund and the Capital Magnet Fund.[2]
3. Charter authority to promote access to mortgage credit throughout the United States (including central cities, rural areas, and underserved areas).[3]

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1 Each GSE is required to "provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low-, and moderate-income families" in these three specified markets. The Federal Housing Finance Agency's (FHFA) rule implementing this "duty to serve" requires each GSE to develop an underserved markets plan that describes the specific activities and objectives it will undertake to serve each of the three specified markets. 12 U.S.C. § 4565; 12 C.F.R. §§ 1282.31-1282.41.

2 Each GSE must set aside 4.2 basis points of the unpaid principal balance of new business purchases to be allocated to the Housing Trust Fund and Capital Magnet Fund. 12 U.S.C. § 4567(a).

3 12 U.S.C. §§ 1451 note, 1716.

4. A requirement to purchase FHFA-specified amounts of certain single-family and multifamily mortgage loans that support housing for specified underserved borrowers and renters.[4]

Treasury's Plan does not include specific recommendations to alter the duty to serve the specified underserved markets or the affordable housing contributions. Treasury seeks to preserve the national service requirement, but with some added protections. With respect to the fourth mandate—the affordable housing goals—Treasury recommends material changes that would establish a more efficient, transparent, and accountable mechanism for delivering tailored support to underserved borrowers.

Further, the Plan recommends that FHFA continue to coordinate with the Federal Housing Administration (FHA) and Ginnie Mae, who have primary responsibility for providing housing finance support to low- and moderate-income families that cannot be fulfilled through traditional underwriting, to ensure an efficient and appropriate Federal role in affordable housing.

To be clear, Treasury is not recommending a reduction in support for underserved borrowers. On the contrary, Treasury is recommending a more effective means of delivering that support.

I look forward to our conversation here today, one that I hope will continue after this hearing. We welcome your thoughts and suggestions to address the challenges facing underserved borrowers and renters nationwide.

Finally, I must emphasize, and our recommendations make clear, that the Administration's preference is to work with Congress to enact comprehensive housing finance reform legislation. Legislation could achieve lasting structural reform that tailors explicit Government support of the secondary market and eliminates the GSEs' competitive advantages over private-sector entities. At the same time, we believe that reform can and should proceed administratively, and pending legislation, Treasury will continue to support FHFA's administrative actions to enhance the regulation of the GSEs, promote private-sector competition, and satisfy the preconditions set forth in the plan for ending the GSEs' conservatorships.

Under the leadership of President Trump, I am proud of all of the work we have done to create conditions for greater economic growth, more and better opportunities for working families, and higher wages for all Americans. Today I look forward to discussing with you the critical issue of housing finance reform. I hope that members of the Committee from both parties will work with us on passing legislation. Thank you very much, and I would be pleased to answer your questions.

[4] FHFA is authorized to set quantitative goals for the GSEs' acquisitions of single-family mortgage loans to low- and very low-income borrowers and borrowers who reside in low-income areas, and also quantitative goals for the GSEs' acquisitions of multifamily mortgage loans that finance units affordable to low-income renters. 12 U.S.C. §§ 4562-63. The single-family goals are generally set as a share of the GSEs' acquisitions. Related to this, the purposes of each GSE include to provide ongoing assistance to the secondary market for residential mortgages, "including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities." Id. §§ 1451 note, 1716.

BDA Bond Dealers of America

"Main Street" Principles for Reforming the GSEs

On September 7, 2008, at the height of the global financial crisis, the Federal Housing Finance Agency (FHFA), the federal government agency that oversees Fannie Mae and Freddie Mac, took control of the two mortgage agencies under conservatorship authority enacted under the Housing and Economic Recovery Act of 2008. The agencies have been operating under conservatorship ever since. On March 27, 2019, President Trump announced that he had directed relevant federal agencies to develop plans to reform Fannie and Freddie. The reform plan will have the goals of ending the conservatorship of Fannie Mae and Freddie Mac, improving regulatory oversight over them, promoting competition in the housing finance market, and creating a system that encourages sustainable homeownership and protects taxpayers against bailouts.

As the administration moves forward in developing its reform plan, the Bond Dealers of America (BDA) believes that several key principles are necessary for a successful reform initiative to ensure the soundness and efficiency of our mortgage finance system. BDA is the only DC-based group exclusively representing the interests of securities dealers and banks focused on the U.S. fixed income markets.

Preserve the "TBA" mortgage securities market

At the end of 2018, Fannie Mae and Freddie Mac together held or guaranteed $5.5 trillion of home mortgage assets on their balance sheets or in mortgage pools backing agency mortgage-backed securities (MBS), nearly 55 percent of total US home mortgage assets.[1] Agency MBS, securities that are issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae, are created, issued, and traded differently from other kinds of securities.

In general, the cash flow used to pay principal and interest to MBS holders comes from monthly mortgage payments made by homeowners whose mortgages are in the underlying pool of loans dedicated to back a certain security. However, there is typically a delay of some weeks between when mortgage originators begin to assemble the mortgage pools and when the securities backed by those pools are ready to be issued. The "To Be Announced", or TBA, market is the mechanism by which investors commit to buy new mortgage securities when they are issued in the future without knowing all the details of the pool at the time of the trade commitment. The TBA market provides a means for mortgage originators to know with certainty that their mortgage pool will be securitized and sold. It is an important way for originators to hedge risk and lock in interest rates for homebuying customers.

In a TBA trade an investor agrees to buy an agency MBS in the future—say, one month—based on just a basic description of the security to be issued, including the issuer, maturity, coupon, face value, price, and the settlement date. Forty-eight hours before the settlement date the seller specifies to the buyer all additional details about the security, and on the settlement date securities and cash are exchanged.

The TBA market is extremely liquid and efficient. In terms of trading volume, only the US Treasury securities market has more activity than the TBA market. TBAs are the principal way that mortgage lenders can know that the loans they originate will be sold to institutional investors at an agreed upon

[1] Federal Housing Finance Agency (FHFA), "Report to Congress 2018," page 4, and Board of Governors of the Federal Reserve, *Financial Accounts of the United States*, First Quarter 2019, page 127.

price. The existence of an active and healthy TBA market helps ensure that mortgage capital continues to flow readily to homebuying families. Whatever changes Congress makes to the mortgage agencies, it is vital that this important funding pipeline be maintained.

UMBS is a welcome advancement

On June 3, 2019, Fannie Mae and Freddie Mac implemented a new Uniform MBS ("UMBS or "single security"). Under this initiative, Fannie Mae and Freddie Mac have begun issuing MBS with identical characteristics that are effectively interchangeable. One goal of the program is to further enhance liquidity in the TBA market by increasing the volume of identical securities being traded.

The "single security" initiative was undertaken by the two mortgage GSEs beginning in 2014. Now fully implemented, UMBS can be issued by either agency. Under TBA "good delivery" guidelines, a UMBS issued by either agency can be delivered against a TBA trade as long as the underlying mortgage pool meets the criteria agreed to when the trade was initiated. UMBS have identical features in terms of cash flow timing and other characteristics regardless of whether they are issued and guaranteed by Fannie Mae or Freddie Mac.

UMBS are designed to enhance liquidity by concentrating trading in identical, interchangeable securities. Before the development of the UMBS, there were sometimes discrepancies in pricing and liquidity between Fannie and Freddie MBS. Under the UMBS initiative, these discrepancies have disappeared. Enhanced liquidity in the TBA market means less risk and more efficient pricing for originators, which translates into lower mortgage rates for homebuyers.

Market reception for the UMBS has been positive. The product appears to have achieved its desired effects based on the first three months of experience. In restructuring the GSEs, we urge policy makers to maintain the single security UMBS structure for the issuance of eligible agency-guaranteed MBS.

Capital-building

One of the goals of restructuring the GSEs is to transition them from conservatorship. In order for a move out of conservatorship to be successful, the agencies will need to build significantly larger capital cushions than they have now. For this, we urge policymakers to begin that transition now by allowing the agencies to retain profits as a way to build capital.

When the GSEs became financially troubled during the financial crisis, the Treasury Department recapitalized both agencies under Senior Preferred Stock Purchase Agreements ("PSPA") whereby Treasury committed to providing up to $100 billion (later increased to $200 billion) to each agency in exchange for certain dividend-bearing senior preferred stock in the two companies.[2] As of December 31 2018, Fannie Mae and Freddie Mac have drawn a combined $191 billion of taxpayer support under the PSPAs.[3] By current agreement of Treasury and FHFA, each agency maintains a capital buffer of $3 billion. Any profits earned that would increase their capital above $3 billion are paid to the Treasury as a dividend, known as a "profit sweep." Since the execution of the PSPAs, Fannie Mae and Freddie Mac

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[2] FHFA, "Senior Preferred Stock Purchase Agreements," www.fhfa.gov/Conservatorship/Pages/Senior-Preferred-Stock-Purchase-Agreements.aspx.
[3] FHFA, "Report to Congress 2018," page 5.

have paid the US Treasury more than $292 billion in dividends.[4] In addition the Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78) required Fannie and Freddie to raise their guarantee fees by 10 basis points each with the revenue derived from the increase paid to the Treasury Department. Between 2013 and 2018 Fannie and Freddie have paid a combined $16.5 billion to the Treasury under this mandate.[5]

While it is not inappropriate for the Treasury to earn dividends from the preferred capital it has paid into the GSEs, the "profit sweep" is an impediment to recapitalizing the GSEs and transitioning them from conservatorship. We urge the Treasury to revise the PSPAs to allow the agencies to keep a portion of their net profits, which would become a capital cushion for the companies. Once the GSEs are appropriately recapitalized, some form of privatization or release from conservatorship would be possible. Allowing Fannie Mae and Freddie Mac to retain profits to build capital means a quicker transition from conservatorship. If the reform plans do not materialize and the GSEs remain in conservatorship, Treasury could require the accumulated profit to be transferred to Treasury at that time.

State and local governments

State and local governments are big purchasers of GSE debt securities. Many states and localities have very strict policies that limit the investment of public funds to federally backed debt securities such as US Treasuries or debt issued by Fannie Mae and Freddie Mac. Agency debt is an attractive investment for state and local governments because it is effectively federally guaranteed but it offers a slightly better yield than Treasury securities.

However, the supply of outstanding agency debt securities has been falling fast. At the end of 2008, Fannie Mae and Freddie Mac had a combined total of $1.8 trillion of debt outstanding.[8] By the end of 2018 that figure had fallen to $482 billion.[9] We encourage federal policymakers to remain sensitive to the needs of state and local governments and other investors who are already limited in their investment choices.

Preserve local lending models

One of the strengths of the country's mortgage finance system is the diversity of originators that compete in the market. Mortgage brokers, mortgage originators, community banks, credit unions. regional banks and money center banks all compete in the same market, giving homebuyers extraordinary choice in selecting a lender. This diversity and competition helps keep costs low and quality of service high. We urge policymakers to maintain the diversity of mortgage lenders and especially the ability of local and regional originators to service their customers effectively and to ensure that the playing field for competitors in the mortgage origination business remains level.ac

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[4] Congressional Research Service, "Fannie Mae and Freddie Mac in Conservatorship: Frequently Asked Questions," updated May 31, 2019.

[5] Fannie Mae, "2018 Form 10-K," page 51; Fannie Mae, "2015 Form 10-K," page 86; Freddie Mac, "2015 Form 10-K," page 14; and Freddie Mac, "2018 Form 10-K," page 15.

[8] Fannie Mae, "Funding Summary Report," as of December 31, 2008, and Freddie Mac, "Annual Funding Summary (2001-2008)," www.freddiemac.com/debt/funding/annual_summary.xls

[9] Fannie Mae, "Funding Summary Report," as of December 31, 2018, and Freddie Mac, "2018 Quarterly Funding Summary," www.freddiemac.com/debt/funding/2018_Quarterly_Funding_Summary.xls.

CALIFORNIA ASSOCIATION OF REALTORS®

October 21, 2019

U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Re: California REALTORS® Comments for "The End of Affordable Housing?" Hearing

Dear California Members of the House Financial Services Committee;

I am writing on behalf of the more than 200,000 members of the California Association of REALTORS® (C.A.R.) to provide the comments below for the Financial Services Committee's hearing "The End of Affordable Housing? A Review of the Trump Administration's Plan to Change Housing Finance in America." C.A.R. is concerned that the Housing Reform Plan by the U.S. Department of the Treasury (Treasury) and the Federal Housing Finance Agency (FHFA) would drastically reduce the availability of mortgage capital throughout California. At best, the proposal would merely harm select communities throughout the state, at worst the proposals would devastate California's housing market and prolong real estate downturns harming homeowners and the state's economy. Perhaps most concerning is so much of the proposal may be implemented absent Congressional review or approval.

California's housing market is still fragile. Sales from a historical perspective are low, housing affordability is a crisis throughout the state, inventory is over 3 million unites short of what is needed, and the homeownership rate continues to lag far behind the national average. In other words, a drastic change to the mortgage finance system that limits the availability of capital, increases costs and eliminates affordable mortgage products will only hurt the California real estate market.

The intent of the proposal is not to protect taxpayers from risk, but to shrink the market share of Fannie Mae and Freddie Mac (Enterprises) regardless of the impact on homebuyers. This builds off the failed decade long attempt by the FHFA to price in private capital. The homebuyers who have paid for this failed policy are Californians who have been charged a garbage "high-balance mortgage loan" fee even though there is no evidence these loans present a greater default risk to the Enterprises.

California's high home prices means a larger portion of non-agency loans are done throughout the state than in other states. While some homebuyers may be able to get a non-agency loan at a competitive interest rate the underwriting guidelines are tougher, often requiring a combination of 20 percent down, six months reserve, and/or higher credit scores. Without the conforming market many of these homebuyers couldn't get a loan.

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CALIFORNIA ASSOCIATION OF REALTORS®

There are many recommendations in the proposal that will harm California's real estate market. For this hearing C.A.R. would like to highlight the ones below.

- **C.A.R. OPPOSES eliminating or weakening the government guarantee to mortgages with higher principal balances**: The Treasury's Plan to not provide or weaken the government guarantee to mortgages with higher principal balance loans would disadvantage cities throughout California. When Congress passed higher loan limits it was done with the intent that they be treated like all other conforming mortgages the Enterprises guaranteed. The Plan's proposal to treat them differently ignores Congressional intent and reduces mortgage capital in high-cost states like California.
- **C.A.R. OPPOSES reducing loan products for affordable housing**: The Enterprises offer a more affordable mortgage product than an FHA loan. Instead of contemplating a rollback of these products with higher loan-to-value, the Treasury and FHFA should look for ways to expand the Enterprises role and reduce their cost. If the goal is to provide affordable mortgages for the long term, then homebuyers with lower downpayments struggling to qualify should have access to the most affordable mortgage products. In many cases that is a conforming mortgage.
- **C.A.R. OPPOSES eliminating or weakening the government guarantee to vacation homes**: Weakening support of vacation homes would devastate communities throughout California. Vacation homes make up a large portion of California communities, including Lake Tahoe, Big Bear and Indian Wells where 40 to 65 percent may be a second home.
- **C.A.R. OPPOSES eliminating or weakening the government guarantee to small investor loans**: If the Treasury and the FHFA limit or weaken the government guarantee from small investor loans, then institutional investors will expand their growing market share of 1- to 4-unit properties. Unlike large institutional investors who have easy access to other forms of capital for purchasing investment properties, mom-and pop investors are almost solely reliant on the Enterprises.
- **C.A.R. OPPOSES discriminating in underwriting multifamily loans secured by properties in jurisdictions that adopt rent-control laws or other undue impediments to housing developments**: The federal government should look for opportunities to incentivize more construction, not punish communities that need more units. C.A.R. has, and will continue to oppose rent control at the state and local level; however, a federal solution should not be to penalize cities, counties or states thus increasing the cost of housing or limiting capital availability.

The Treasury and the FHFA have stated they have the ability to change every item above unilaterally through Administrative action. They should clarify what Administrative actions would require moving through the regular regulatory process and which ones do not have to go through the regulatory process. C.A.R. is concerned that the FHFA and Treasury will begin implementing these portions of the proposal and others that limit capital with little to no warning and no ability to be checked by Congress. Before further consideration of any proposals the Treasury and the FHFA should take public input and move slowly to not harm the real estate market and homebuyers.

CALIFORNIA ASSOCIATION OF REALTORS®

Thank you for considering our comments. We would be happy to discuss any of these issues further with you and your staff. Please contact Matt Roberts, C.A.R. Federal Government Affairs Manager at matthewr@car.org or by phone at 213-739-8284.

Sincerely,

Jared Martin
C.A.R. President

Cc: National Association of REALTORS®

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Credit Union National Association
CUNA

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October 21, 2019

The Honorable Maxine Waters
Chairwoman
House of Representatives Committee
on Financial Services
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
House of Representatives Committee
on Financial Services
Washington, DC 20515

Dear Chairwoman Waters and Ranking Member McHenry:

On behalf of America's credit unions, thank you for holding the hearing entitled, "The End of Affordable Housing? A Review of the Trump Administration's Plans to Change Housing Finance in America." The Credit Union National Association (CUNA) represents America's credit unions and the 115 million members that they serve.

We believe that the Administration's recently released proposals by Department of Housing and Urban Development and the Treasury Department are important first steps in beginning the work of rebuilding the secondary mortgage market and accomplishing the objective of housing finance reform. CUNA and our credit union members are committed to working with both Congress and the Administration to refine and build upon those proposals to ensure that they accomplish a strong and sustainable secondary mortgage market for the future that ensures the availability of affordable housing in the United States.

Credit Unions' Relationship to the Secondary Mortgage Market

The nation's 5,500 credit unions are unique, member-owned, democratically-controlled, not-for-profit financial cooperatives. Many of those members rely on their credit union to meet their housing finance needs. In each of the past three years, credit unions extended nearly $140 billion in first mortgages to members and nearly two-thirds of that total consisted of fixed-rate loans.

A robust, smoothly functioning national housing finance system with an efficient, effective and fair secondary market that provides equal access to lenders of all sizes is a key concern for credit unions and the members they serve.

Credit unions are a small, but increasingly important, source for average working Americans to obtain safe, affordable mortgages. Collectively, credit unions held a total of $432 billion in first mortgages at year-end 2018. This represents 41% of total loans in these institutions – up from 25% of total loans at year-end of 2000.

Credit union first mortgage originations accounted for nearly 9% of total U.S. first mortgage originations in 2018 – up significantly from 2% of total originations annually prior to the start of the financial crisis.

According to 2017 Home Mortgage Disclosure Act (HMDA) data the average first mortgage loan size at credit unions is approximately $200,000 – roughly 28% lower than the average loan size at banks. Credit union mortgage loan applicant incomes are about 15% lower than the average at banks.

Credit unions are primarily portfolio lenders, reflected in the fact that only 30% of these institutions sold mortgages into the secondary market in 2018. However, credit union mortgage operations depend on a smoothly-functioning secondary market: As a group, credit unions sold one-third of their first mortgage originations into the secondary market in 2018 and sold an average of 39% of their originations since 2000. Sales peaked at nearly 55% of originations in both 2009 and 2012.

The Principles that Should Guide Housing Finance Reform

Accordingly, as Congress and the Administration work together to reform the current housing finance system, it will be essential for any final reform proposal to prioritize affordable housing by embracing the following principles:

Equal Access: The secondary market must be accessible to lenders of all sizes on an equitable basis.

Affordability: The housing finance system must continue to provide qualified consumers with access to predictable, affordable mortgage payments; Affordability incudes recognition of the fact that smaller lenders, such as credit unions, often meet mortgage needs that banks are unwilling or unable to address in rural and working-class communities that require greater flexibility in underwriting requirements and weigh against mandatory minimum down payments.

A Reasonable and Orderly Transition: Any transition to a new housing finance system must be reasonable and orderly; Accordingly, efforts to transfer guarantee oversight authority to entities, such as Ginnie Mae, must honestly assess and plan for the operational, staffing, and intellectual know-how deficits that exist at those entities and could frustrate the operation of the secondary mortgage market if not acknowledged, addressed, and corrected well in advance of any transition.

Strong Oversight and Supervision: Secondary market entities must be subject to appropriate regulatory and supervisory oversight to ensure their safety and soundness;

Durability: The housing finance system should include an explicit federally insured or guaranteed component to ensure that, even in troubled economic times, the secondary mortgage market continues to exist; and

Preserving What Works: The housing finance system should preserve the things that work, such as cost-effective and member-oriented credit union mortgage servicing options, emphasizing consumer education and home-purchase counseling, and applying reasonable conforming loan limits that adequately consider local real estate expenses in higher cost areas.

The future secondary mortgage market must build upon and strengthen the existing partnerships between credit unions, guarantors, and Federal Home Loan Banks in ensuring access to responsible and affordable mortgage credit for millions of credit union members.

The Essential Features Necessary for Credit Unions and Other Small Lenders to Continue to Provide Affordable Conventional Mortgage Credit

Yet, as important as it is to act to reform the secondary mortgage market, it's even more important to get it right. CUNA and our members continue to believe that for credit unions and our members, getting it right should mean one thing:

Community lenders must be at the core of the future secondary mortgage market.

Consumers want and need responsible, affordable mortgage credit. Historically, it has been community lenders—credit unions and community banks—that have provided access to mortgage credit minus predatory features and without having to first be prompted by their regulators to do so. It bears repeating that retail credit unions—rural, urban, large, and small—did not play a role in the subprime meltdown and ensuing financial crisis. Instead, as careful lenders and not-for-profit cooperatives, incentives at credit unions were already aligned in a way that helped ensure that lenders prioritized member owners' interests over financial profits. Credit unions continue to prioritize member owners' interests today by offering responsible, affordable mortgage loans.

Equity

The ability to offer these products is highly dependent upon the liquidity that the secondary mortgage market provides. So, it is critical that any serious housing finance proposal start with the proposition that the future system should function well for lenders of all shapes and sizes. That means the future secondary mortgage market must be equitable. Acceptable reform proposals must prevent community lenders from being priced out of the secondary market by giveaways to big banks and huge mortgage finance companies in the form of volume pricing discounts, exceptions from complying with certain terms, and other forms of preferential treatment. All lenders should feel confident that they can access the secondary market on a level playing field with everyone else. Ultimately, both consumers and the market benefit when community lenders can fairly compete for mortgage business.

Pricing parity is a crucial change in the way that Fannie Mae and Freddie Mac do business that only occurred as a result of their conservatorship. Going forward, it must be a core component of the modern secondary market.

Anti-Discrimination Principle
By itself, however, pricing parity will not achieve equity for community lenders. Proposals for a private multi-guarantor model must go one step further and include an obligation for guarantors to serve all lenders. Absent this obligation, the secondary market of the future may devolve into a system where guarantors simply "cherry-pick" and exclusively do business with lenders offering larger volumes of loans. That result would be detrimental to community lenders and borrowers, who are increasingly turning to smaller, community-based financial institutions to meet their mortgage needs. Ensuring community lenders' equal access to the secondary mortgage market and protecting them from discrimination honors consumer preference.

Preservation of the Cash Commitment Window
Finally, in order to ensure equity for community lenders, the modern secondary market must preserve the cash commitment window. Smaller lenders need to be able to deliver a single conforming mortgage and receive funding the next day. The simplicity of the cash commitment window is critical for community lenders who are attempting to meet their consumers' needs for mortgage credit without operating a full-scale secondary mortgage market operation. Access to a simplified program allows community lenders to lend to consumers and manage the risk on their books without delving into the complexity of the securitization process.

Each of these features—pricing and term parity, an obligation to serve all lenders, and the simplicity of a cash commitment window—are crucial components of any secondary market housing finance reform proposal that honestly seeks to ensure community lenders can compete and offer consumers an alternative to big banks and huge mortgage finance companies. Given the increasing market share that credit unions have gained in the primary mortgage market over the years, it is clear that our member owners want to be able to count on their community lender when it comes to buying a home.

Conclusion

On behalf of America's credit unions and their 115 million members, thank you again for holding this hearing to continue the discussion on the next steps for housing finance reform and how they will impact access to affordable housing in the United States. We appreciate your consideration of our views and welcome the opportunity to work with both the Administration and Congress to develop Administrative actions and legislation that ensures that the future secondary mortgage market successfully meets the needs of smaller lenders and the consumers that they serve.

Sincerely,

Jim Nussle
President & CEO

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October 18, 2019

The Honorable Maxine Waters
Chairwoman
House Financial Services Committee
2129 Rayburn House Office Building
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The Honorable Patrick McHenry
Ranking Member
House Financial Services Committee
2129 Rayburn House Office Building
Washington, D.C. 20515

Re: Making Housing Finance Reform Work For Rural America

Dear Chairwoman Waters and Ranking Member McHenry:

The Housing Assistance Council (HAC) appreciates the opportunity to comment on the Committee's efforts to improve housing finance options and opportunities. HAC views such efforts through an unchanging lens: What is the impact on rural people and communities? The choices are stark. Housing finance reform can exacerbate the marked decline of large swaths of rural America which has hastened since the financial crisis, or it can incentivize capital toward rural areas. Such capital can stabilize rural main streets and housing markets, making the entire country stronger.

HAC is a national nonprofit that helps build homes and communities across rural America. HAC has worked with local nonprofits, municipalities, tribal entities, and for-profit developers to help build more than 70,000 affordable homes in rural communities since 1971. With over 48 years of service to public, nonprofit, and private organizations throughout the rural United States, HAC is uniquely positioned to provide comments and insights on housing finance in rural America.

MAKING HOUSING FINANCE REFORM WORK FOR RURAL AMERICA

Rural America is losing its banks and mortgage lenders at an alarming rate, and disproportionate to the rest of the nation. The number of lenders insured by the Federal Deposit Insurance Corporation (FDIC) dropped from approximately 15,000 in 1990 to just over 5,000 in 2019. Between 2000 and 2010 alone, the number of depository institutions based in rural areas declined by 21 percent. Without access to safe, local financial services providers, rural Americans are being left behind.

Building Rural Communities

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For many rural places, the secondary mortgage market isn't even part of the landscape. Fannie Mae and Freddie Mac are integral players in the U.S. mortgage system, but the Enterprises' activity in rural communities has been limited at best. Between 2012 and 2015, the mortgage giants' rural loan activity accounted for roughly 12 percent their total purchases – less than the overall rate of all mortgage originations in rural areas. Generally, the more rural a community, the less likely Fannie or Freddie purchased a loan there. And when "rural" loan purchases do exist, they are concentrated near suburban and urban areas.[1]

Given this landscape, HAC urges the Committee to pay particular attention to the following issues when considering housing finance reform:

Preserve Duty to Serve. The 2008 Housing and Economic Recovery Act's Duty to Serve mandate was a glaring recognition that many rural markets are either not well-served – or even served at all – by the Enterprises. While Duty to Serve was established in 2008, it took nearly a decade to begin implementation and its efforts are just now beginning to be sewn. Duty to Serve is just that – a Congressionally established Duty – and it should be retained and allowed to fulfill its role of improving mortgage access and liquidity in long-overlooked rural markets.

The Administration's housing finance reform plan proposes Duty to Serve be "replaced with a more efficient, transparent, and accountable mechanism for delivering tailored support."[2] Eliminating or replacing Duty to Serve just as it gains momentum would throttle fledgling secondary market entrance into rural and underserved communities.

Include, and Support, Rural Partners. Any meaningful effort at housing finance reform will require the partnership of and support for existing housing providers including local, regional, and national nonprofits, tribes, and Community Development Financial Institutions (CDFIs) already working in rural communities. HAC strongly encourages a structure that maximizes capacity for these strategic partnerships in rural communities. These entities have the experience, local trust, and insights to help effectuate access to mortgage finance for rural households. Community-based and mission-aligned organizations are all too often the only local organizations providing affordable housing in rural areas. Stable community-based organizations transform public and private funding into affordable homes and stronger communities. Housing finance reform must explicitly bring capacity to such organizations.

A Robust Rural Retail Banking Sector is Essential for Rural Credit Opportunity, Community Health, and the Broader Mortgage Market. Three-quarters of rural banks are classified as small lenders, yet they originated only 13 percent of rural mortgages nationwide in 2012. Conversely, large, predominately urban-based banks made nearly 70 percent of mortgages in

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[1] HAC Tabulations of 2010-2015 Home Mortgage Disclosure Act Data.
[2] U.S. Department of the Treasury Housing Reform Plan. September 2019.
https://home.treasury.gov/system/files/136/Treasury-Housing-Finance-Reform-Plan.pdf

rural areas in 2015. The impacts of bank consolidation are also evident in concentrations of home mortgage activity within rural communities. In 2014, nearly 30 percent of all rural and small-town HMDA-reported home purchase loans were made by just 10 banks.[3] Bank mergers and consolidations may impact rural communities in other ways as well. Large banks serving places far from their home bases may not be as attached to the communities they serve as smaller, local community banks.[4] As a result, large banks do not fully know their new customer base, and they may make fewer loans and be less involved in the community.[5]

Ultimately, HAC understands that rural financial institutions are intertwined with broader markets — domestic and international. And rural consumers can choose between locally-rooted institutions or larger banks. But housing finance policy should not exacerbate the decline of the rural community banking sector. Steps toward such include ensuring that strong cash windows and other industry tools are fully available to rural institutions without exception and without pricing structures that penalize rural institutions for lesser volume. Fair access to the secondary market is essential for small lenders.

The Hardest-to-Serve Rural Areas — Those Mired in Persistent Poverty — Require Special Attention In Any Finance Reform Effort. Persistently poor rural areas and populations suffer from an extreme lack of mortgage access and investment capital. These underserved areas and their inhabitants have often been described as Forgotten America. Higher poverty rural regions and populations have many shared indices of economic distress and lack of mortgage access. Yet they also differ in terms of demographic and cultural composition, geography, and underlying economies — thus magnifying the importance of high-capacity nonprofit entities with knowledge of local terrain working in such communities.

Rental Housing Production and Multifamily Preservation are Important Components of Rural Housing Markets. A near singular focus on purchasing and owning homes in the United States has overshadowed and even marginalized the housing needs of renters. Rural renters generally have much lower incomes than rural homeowners, and supply and affordability constraints make renting difficult for many rural Americans. Housing finance reform that preserves and enhances tools including the National Housing Trust Fund, the Capital Magnet Fund, and the Low-Income Housing Tax Credit is vital. And it is important that Congress work with stakeholders to make sure the above-noted programs work in rural areas.

The composition of rental housing finance in rural markets is a patchwork of private and public resources. With little or no production, deferred maintenance, and expiring or maturing

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[3] HAC Tabulations of 2014 Home Mortgage Disclosure Act Data.
[4] W.R. Keeton. "Are rural banks facing increased funding pressures? Evidence from Tenth District States." *Economic Review.* 2nd quarter. 1998: 43-67.
[5] Housing Assistance Council. *CRA in Rural America: The Community Reinvestment Act and Mortgage Lending in Rural America.* http://www.ruralhome.org/storage/documents/publications/rrreports/rrr-cra-in-rural-america.pdf

mortgages, much of the sparse rental stock in rural areas is in jeopardy. Ensuring purchase markets for mortgages that enable rural multifamily preservation, as well as production, can play an important role in saving the affordable homes of hundreds of thousands of tenants, the majority of whom are elderly or disabled.

Continued Safe and Sound Oversight Will Complement and Enhance Mortgage Access in Rural Communities. HAC and our rural stakeholders understand the importance of stable markets and available credit. Careful evaluation combined with improved data collection will help ensure a safe and sound operation of the Enterprises while simultaneously reducing risk and helping stimulate quality housing development for low-income families in rural markets. At first glance, HAC sees promise in proposals to recapitalize the Enterprises via a utility model, concurring with FHFA that such a model not create a buildup of risk. HAC also believes that such a model should avoid vertical integration of the market by guarantors and protect rural vibrancy by prohibiting discounts for lenders based on volume.

Eschew Convention. In some respects, current mortgage products are not well-suited for many rural markets. HAC recommends that the key actors in mortgage markets (Congress, financial institutions, regulators, secondary market actors, and others) challenge their own convention for housing finance – especially for rural markets. New and creative approaches are needed to fully achieve the goals of finance reform that works for rural America. But such challenges to convention must maintain support for the rural institutions—nonprofits, CDFIs, and other entities—that are at the core of making housing finance reform work for rural.

Finally, Rural America Needs – and is Worthy of – Investment. HAC's experience is that rural communities – even the most challenged – are largely credit-worthy and ripe for investment, provided that an understanding of rural nuance is in place. Rural America is large with many different housing markets. To make any attempt at housing finance reform a success across this wide spectrum, any plan will need to better understand these often-forgotten markets by committing to meaningful research and evaluation efforts and sustained investment.

As a long-time supporter, developer, and advocate of affordable housing in rural America, HAC wishes to see housing finance that increases liquidity and access to affordable housing nationwide. HAC stands willing to assist Congress in any way toward meeting such goals.

Sincerely,

David Lipsetz
Chief Executive Officer

MAIN STREET GSE REFORM COALITION
COMMON GSE REFORM PRINCIPLES

The Federal Housing Finance Agency (FHFA) has recently announced it will increase the capital of Fannie Mae and Freddie Mac to levels that will protect taxpayers and greatly reduce the risk of a future bailout. The Main Street GSE Reform Coalition, representing affordable housing advocates, civil rights organizations, small and mid-sized lenders, and homebuilders, believes that the conservatorship of the GSEs should end, with the adoption of the following principles, and rebuilding capital is an important first step.

Yet we remain concerned about any moves to shrink the "footprint" of the GSEs or drive up the cost of credit. More than a decade after the economic crisis, homeownership rates remain low particularly in communities of color, the gap in the demand for and availability of affordable rental housing continues to widen, and federal support for homeownership and affordable housing efforts remains inadequate. Given the tremendous importance of housing to the communities we represent and to our national economic health, we believe it is vital that the GSEs maintain their vigorous role in supporting affordable housing finance.

Under the Housing and Economic Recovery Act (HERA) of 2008 and administrative reforms undertaken by the FHFA acting as conservator, critical "GSE Reforms" have already been achieved. The primary objective of any further legislative or administrative GSE reform should be to promote broad access to affordable, sustainable mortgage credit in all communities while minimizing risk to taxpayers. The Main Street GSE Reform Coalition shares the following principles, which would increase competition, prevent financial concentration, and prevent artificial barriers to entry in the GSE loan origination market.

- Establish capital levels consistent with what the GSEs are charging the market currently, consistent with statute and the unique risk characteristics of the GSEs.
- Maintain lines of business that enable the cross-subsidization of lending within all markets and communities, benefiting all borrowers.
- Retain FHFA's role as a strong independent regulator, with full oversight and approval of operations, capital requirements, fees, charges, and prudential standards.
- Ensure full and equal access for all lenders, regardless of size, including a prohibition on volume discounts with respect to guarantee fees, buy up and buy down fees, cash pricing, loan level price adjustments, and risk-sharing pricing.
- Serve all markets, including underserved, rural, and urban areas, equally.
- Expand access to all creditworthy borrowers and affordable housing through pooling of risk, more level pricing, and equitable distribution of the cost of catastrophic capital to protect against another market failure like the Great Recession; strengthening and ensuring compliance with affordable housing goals; enforcement of "duty to serve obligations;" compliance with fair housing and lending laws; and full funding of the Housing Trust Fund and Capital Magnet Fund.
- We believe that chartering additional guarantors would be overly disruptive and would not foster competition in the secondary market, instead creating a race-to-the-bottom environment for loan purchases and a potential competitive advantage that comes from vertical integration.

- Continue the credit risk transfer program by the GSEs to reduce their overall risk consistent with an economic benefit, with prohibitions on market structures/actions that create an unlevel playing field for loan origination.
- Charge a fair ongoing fee for maintenance of the existing Treasury line of credit or any explicit federal guarantee.
- Continue moving forward with administrative recapitalization plans to permit the GSEs to exit conservatorship into a utility-type system, including regulation of pricing and rates of return, to provide investors a fair return and to further the GSEs' public mission.
- While we believe critical GSE reforms have already been accomplished through HERA and FHFA administrative actions, any additional reforms should achieve and conform to the above principles.

Community Home Lenders Association
Community Mortgage Lenders of America
Independent Community Bankers of America
The Leadership Conference on Civil and Human Rights
Leading Builders of America
NAACP
National Community Reinvestment Coalition
National Urban League
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National Association of Federally-Insured Credit Unions

October 21, 2019

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Re: Tomorrow's Hearing: "The End of Affordable Housing? A Review of the Trump Administration's Plans to Change Housing Finance in America"

Dear Chairwoman Waters and Ranking Member McHenry:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in regard to tomorrow's hearing, "The End of Affordable Housing? A review of the Trump Administration's Plans to Change Housing Finance in America." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 118 million consumers with personal and small business financial service products. NAFCU has long advocated for housing finance reform because the current conservatorship of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, is unsustainable in the long term and we are pleased to see the Committee's continued focus on this issue. The recent plans from the Administration, including the U.S. Department of the Treasury, serve as an important step in the Housing Finance Reform debate, but more work remains, as legislative guarantees are essential for credit unions' continued access to the secondary market.

NAFCU's Housing Finance Reform Principles recognize the importance of a strong, independent regulator for the GSEs, and NAFCU supports some of the recent steps taken by Federal Housing Finance Agency (FHFA) Director Mark Calabria. More specifically, NAFCU supports the recent agreement between the FHFA and Treasury to permit the GSEs to retain more capital to better protect taxpayers in the event of a severe economic downturn. NAFCU also appreciates FHFA's recent directive to the GSEs to discontinue the practice of volume-based discounts to provide smaller lenders with equal access to the GSEs. Despite these positive steps, NAFCU cautions against additional administrative reforms without legislative actions to guarantee certain key elements from NAFCU's Housing Finance Reform Principles.

A legislative solution should be the focus prior to major administrative action to remove the GSEs from conservatorship in order to ensure critical protections for smaller lenders. Congress should prioritize advancing legislation that provides fair pricing based on quality and not quantity as well as a level playing field that permits equal access to lenders of all sizes through services such as the cash window. Without such legislative protections, credit unions' access to the secondary market and ability to lend to more members of their communities, particularly those individuals of low- and moderate-income, may be in jeopardy.

Several proposals for housing finance reform, including the Treasury's plan, advocate for a multi-guarantor model that permits new entities to enter the market to compete against the GSEs. The primary concern with such a model is that bank-affiliates and non-depository institutions, including fintech companies, may enter as competitors and achieve vertical integration in the housing finance market. This could reduce access and promote unfair pricing for credit unions and other community financial institutions. NAFCU is concerned about a race to the bottom in a multi-guarantor model and instead supports building upon and improving the GSEs' existing processes, procedures, and technologies to foster competition between the two GSEs. Regardless of the ultimate model chosen for a reformed housing finance system, any major changes should be implemented gradually to prevent market disruptions and provide a smooth transition.

NAFCU appreciates the Committee's attention on ways to reform the housing finance system. NAFCU looks forward to continuing to work with Congress and the Administration as it continues to examine potential proposals and the next steps for reform. Should you have any questions or require additional information, please do not hesitate to contact me or Max Virkus, NAFCU's Associate Director of Legislative Affairs, at 703-842-2261.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Financial Services Committee

The End of Affordable Housing? A Review of the Trump Administration's Plans to Change Housing Finance in America

October 22, 2019

Congressman Emanuel Cleaver Questions for the Record for Secretary Carson.

Opportunity Zones

Secretary Carson, during your appearance before the committee we had a very brief exchange on opportunity zones, and you noted that there was a very big project pending in my district before the allotted time expired. I would be interested in you your team responding directly to my staff on the nature of that project and how it may benefit my constituents.

> **RESPONSE: HUD would be happy to brief your staff on the impact of Opportunity Zones in the 5th congressional district of Missouri.**

Child Homelessness

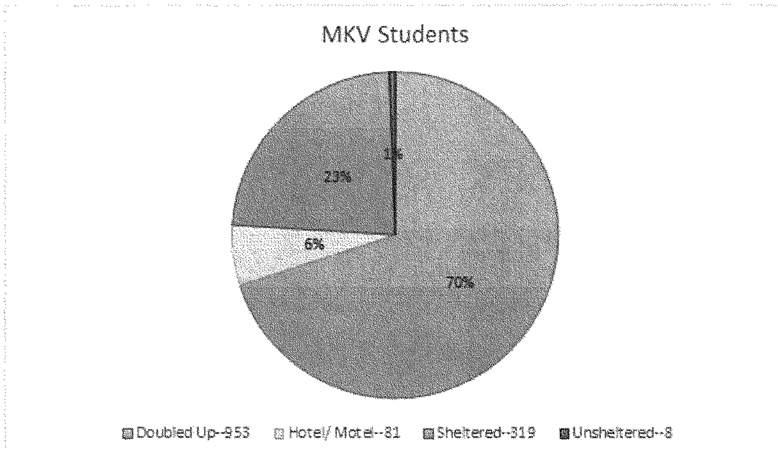
When my staff was exploring the issue of homelessness and housing insecurity, they connected with a range of constituents who help focus my thinking on the following questions.

I am very concerned about some of our nation's most vulnerable people without housing: children, youth, and families.

You will not see most of these children and youth on the streets. They bounce between couches and floors, motels, and if they're lucky, shelters. They move from place to place, wherever they can find a place stay. These are dangerous and unhealthy situations that put children and youth at risk of trafficking, abuse, and neglect. They harm health and well-being, and put these kids on a path to homelessness as adults.

Other federal agencies, such as the Department of Education and the Department of Health and Human Services, recognize the severity of these situations, and acknowledge that these children and youth are homeless.

Tragically, HUD does not appear to offer the same consideration.



In my district, as of July 2019 (2018-2019 school year) My team and I identified 827 unique families or 1,361 students who are classified as McKinney-Vento Homeless out of a total enrolled school population of 14,820.

As you can see the largest majority of students are our doubled-up & hotel/ motel families who are experiencing homelessness. These families fail to meet HUD's definition; yet they are our most at risk population.

1. **Do you agree that communities should be allowed to serve these vulnerable children and youth, who are considered by public schools and early childhood programs, with HUD homeless assistance funds?**

RESPONSE: Currently, HUD's Continuum of Care (CoC) program funds approximately 251,000 beds with related supportive services, much less than the approximately 553,000 children, youth, and adults who were homeless (as defined by HUD's statutes) – on a given night in January 2018. Nearly 195,000 of these people were sleeping on the streets, in a car, in a park, or in some other place not meant for human habitation. HUD continues to prioritize assistance to individuals and families with the greatest barriers and highest needs to make these limited resources available for persons living on the street, most of whom also have disabilities and multiple barriers to housing.

HUD agrees that doubled up households need affordable housing options, and HUD has many resources for which they are eligible, including the HOME program, Housing Choice Vouchers, Project-Based Rental Assistance programs, and Public Housing. Families who are doubled up or unstably housed are eligible for assistance under HUD's Emergency Solutions Grants (ESG) Program.

Additionally, in July of 2019, HUD announced the Foster Youth to Independence Initiative (FYI). This new initiative offers housing vouchers to local public housing authorities to prevent or end homelessness among young adults under the age of 25 who are in, or have recently left, the foster care system and have nowhere else to go.

Along with these programs to provide housing for youth and families who are doubled up or unstably housed, HUD is also tackling the critical shortage of affordable housing which is often the root cause of homelessness. As chair of the White House Council on Eliminating Regulatory Barriers to Affordable Housing, Secretary Carson has toured the country speaking with local government officials about the impediments zoning regulations pose to providing communities with the affordable housing they so desperately need. HUD has also been scrubbing its own rules and regulations to weed out those that create undue burdens on affordable housing development. There is much the Department is doing to provide homes for unstably housed individuals and families.

HUD's homeless assistance funds are focused on the most vulnerable and hardest to serve people. Changing this focus to include doubled up individuals and those in hotels/motels will lead to less assistance being provided to unsheltered homeless individuals and people with the most significant challenges to exiting homelessness, especially people with mental illness, substance use disorders (including opioid use disorders), and other disabilities. It will lead to fewer resources available to victims of domestic violence and human trafficking who often have no resources available to them to secure safe housing away from their abuser or trafficker.

2. **What steps could HUD legally take to allow more flexibility, so that communities could use their HUD homeless assistance funding to serve children, youth, and families, including those identified through public-school systems?**

RESPONSE: The statutory definition of homelessness and at-risk of homelessness, enacted through the 2009 HEARTH Act amendments to the McKinney-Vento Act, was a carefully negotiated compromise that considered the views of multiple stakeholders. Under the current definition, communities can use up to 10 percent of their HUD CoC program funds to serve families and youth in shared housing situations for economic reasons if their needs are a higher priority than those of other people experiencing homelessness, including people who are living on the streets.

3. **What will HUD do to make more housing opportunities affordable to extremely low income households? (Extremely low income is a federal term for households at or below 30% of area median income.)**

RESPONSE: The Housing Choice Voucher Program is the federal government's major program for assisting Americans with lower income levels, with over $23 billion appropriated for the program in FY 2020. At least 75 percent of the families admitted to a PHA's Housing Choice Voucher program during a fiscal year must have income at or below 30 percent of area median income.

Additionally, HUD's Choice Neighborhoods Program seeks to help communities at all income levels by taking a comprehensive approach to revitalization in struggling areas. The Choice Neighborhoods Program centers on improving distressed HUD housing and using these changes as catalyst to improve critical neighborhood assets, including vacant property, housing, services and schools.

The Rental Assistance Demonstration (RAD) Program is also designed to create more housing opportunities for low-income Americans. RAD conversions allow PHAs and other owners to leverage private debt and equity to address their properties' immediate and long-term capital needs by converting public housing units into project-based Section 8 assistance, either Project Based Rental Assistance (PBRA) or Project Based Vouchers (PBVs). In the FY 2020 budget, HUD requested the elimination of the cap on public housing projects that could be converted. As of July 2019, 116,839 public housing units had been converted under the RAD program generating $7.47 billion in construction investment in these properties. It would have taken participating PHAs roughly 46 years to accumulate enough Public Housing Capital Funds to complete a similar amount of construction.

President Trump also created the Council on Eliminating Regulatory Barriers to Affordable Housing, which is chaired by Secretary Carson. Secretary Carson and HUD are leading the effort to identify barriers to increasing the housing supply and submitting a report to the President on potential solutions. This is a nationwide undertaking with input from stakeholders, including state and local governments, across the United States. HUD also recently released a plan for Housing Finance Reform that recommends refocusing FHA on its core mission of serving lower-income and first-time homebuyers.

4. What will HUD do to help address student homelessness in America?

RESPONSE: The share of children under 6 in shelters declined from 49.1 percent of all children housed in shelters in 2007 to 44.5 percent in 2017. Furthermore, the number of families experiencing homelessness at a point in time declined by 32 percent between 2010 and 2019. The number of families experiencing unsheltered homelessness fell even more over the same period – 75 percent.

HUD continues to request increases in homeless assistance funding through the CoC, Foster Youth to Independence Initiative, and the Emergency Solutions Grants Programs to help communities continue implementing these strategies. HUD also encourages communities to use evidence-based practices and coordinate strategies across their communities and across different sectors, including housing, health care, education, employment, and early childhood development.

In addition, HUD has funded 44 communities to implement the Youth Homelessness Demonstration Program (YHDP). The goal of the YHDP is to support selected communities in the development and implementation of a coordinated community approach to preventing and ending youth homelessness and sharing that experience

with and mobilizing communities around the country toward the same end. The population to be served by this demonstration program is youth experiencing homelessness, including unaccompanied and pregnant or parenting youth.

HUD looks forward to continuing to work together with Congress to identify potential opportunities to increase the supply of, and access to, affordable housing for these households, supporting local capacity to serve more families and youth.

5. How are HUD homeless assistance programs ensuring that young children have access to quality early learning experiences and quality child care?

RESPONSE: In partnership with the Department of Health and Human Services and the Department of Education, HUD published a Policy Statement on Meeting the Needs of Families with Young Children Experiencing and At Risk of Homelessness. That statement can be found here: https://www.acf.hhs.gov/sites/default/files/ecd/echomelessnesspolicystatement.pdf.

The statement focuses on "better meeting the needs of … highly vulnerable families through stronger partnerships between early care, learning, health, and development settings and CoCs, housing programs, and emergency shelter providers."

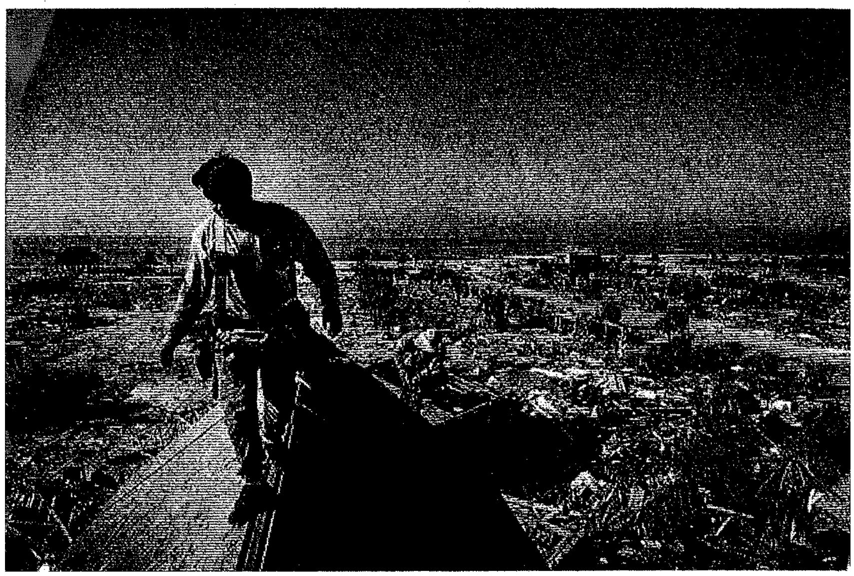
Through the CoC program, HUD promotes formal partnerships between homelessness programs and early childhood programs, such as HeadStart and Home visiting programs.

6. Do HUD homeless assistance programs ensure that the physical environment is "child-proofed" so that these children's health and development are not further compromised?

RESPONSE: HUD continues to promote best practices in serving families with children. For example, HUD has promoted the Early Childhood Self-Assessment Tool for Family Shelters, which is a guide to support the safe and healthy development of young children in shelter settings. This tool can be found here: (https://www.acf.hhs.gov/sites/default/files/ecd/ech_family_shelter_self_assessment_tool_120114_final.pdf).

For permanent housing programs, HUD requires that all assisted units pass Housing Quality Standards that ensure that housing is safe and adequate.

Climate Risk in the Housing Market Has Echoes of Subprime Crisis, Study Finds



The New York Times

Climate Risk in the Housing Market Has Echoes of Subprime Crisis, Study Finds

By Christopher Flavelle

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WASHINGTON — Banks are shielding themselves from climate change at taxpayers' expense by shifting riskier mortgages — such as those in coastal areas — off their books and over to the federal government, new research suggests.

The findings echo the subprime lending crisis of 2008, when unexpected drops in home values cascaded through the economy and triggered recession. One difference this time is that those values would be less likely to rebound, because many of the homes literally would be underwater.

In a paper to be released Monday, the researchers say their findings show "a potential threat to the stability of financial institutions." They warn that the threat will grow as global warming leads to more frequent and more severe disasters, forcing more loans to go into default as homeowners cannot or would not make mortgage payments.

"We're talking about a loss that's going to be borne by United States taxpayers," said Amine Ouazad, a professor in the department of applied economics at HEC Montreal and one of the paper's authors. He added that with between $60 billion to $100 billion in new mortgages issued for coastal homes each year, "we're not talking about a small number."

Mr. Ouazad, along with his co-author Matthew Kahn, a professor at Johns Hopkins University, examined the behavior of mortgage lenders in areas hit by hurricanes between 2004 and 2012, each of which caused at least $1 billion in damages. They found that, after those hurricanes, lenders increased by almost 10 percent the share of those mortgages that they sold to Fannie Mae and Freddie Mac, government-sponsored enterprises whose debts are backed by taxpayers.

Selling mortgages to Fannie and Freddie allows banks to avoid the financial risk that homeowners will default on the mortgages. Hurricanes increase that risk: Mr. Ouazad and Mr. Kahn found that the odds of an eventual foreclosure rise by 3.6 percentage points for a mortgage originated in the first year after a hurricane, and by 4.9 percentage points for a mortgage originated in the third year.

The regulations governing Fannie and Freddie do not let them factor the added risk from natural disasters into their pricing, which means banks and other lenders can offload mortgages in vulnerable areas without financial penalty. That increases the incentive for banks to make the loans and then move them off their books, the authors said.

Fannie Mae and Freddie Mac are private companies created by the government to support mortgage and housing markets. After suffering massive losses during the 2008 financial crisis, the federal government essentially began to back their debts. The Trump administration has proposed shifting their role to the private sector, though no legislation appears imminent.

Mr. Ouazad said he and Mr. Kahn looked at data for thousands of lenders, and their findings reflect the average of those lenders' behavior after hurricanes. He declined to share the findings about any specific lender, while saying that the increase in securitization was greater for national banks.

When asked about the findings, representatives of JP Morgan Chase and Wells Fargo, two of the country's largest mortgage lenders, denied engaging in the practice described in the paper. Quicken Loans and Bank of America did not respond to questions.

The Mortgage Bankers Association, which represents mortgage lenders, declined to comment. The Federal Housing Finance Agency, which sets the rules governing the behavior of Fannie and Freddie, did not respond to a request for comment.

Fannie Mae and Freddie Mac declined to comment on the paper or to describe what share of the mortgages they hold are for homes in flood zones.

Housing economists who were not involved in the research said that the methodology used by Mr. Ouazad and Mr. Kahn was sound, and that their findings would raise troubling questions about who will bear the financial cost of climate change in the United States.

"The problem they've discovered is likely to grow in magnitude and is clearly important, because the taxpayer is on the hook," Susan Wachter, a professor of real estate and finance at the University of Pennsylvania's Wharton School, said. The mortgage market's exposure to flooding "could be as large as the losses due to the subprime crisis," Ms. Wachter said, referring to the 2008 housing crisis, which threw the nation into its worst economic downturn since the 1930s.

The paper's findings suggest that banks and other lenders are aware of that threat, she added. "They see this coming," Ms. Wachter said. "And they're taking steps to shift the risk."

Asaf Bernstein, an economist at the University of Colorado in Boulder, said the findings highlighted another problem: By agreeing to buy mortgages for homes at risk from climate change, without charging a premium that reflects that risk, the federal government had effectively encouraged home construction and purchases in vulnerable areas.

"It's basically an implicit subsidy," Mr. Bernstein, who was not involved in the study, said.

Economists at both Fannie and Freddie have warned in the past of the risks that climate-related increases in flooding pose to the mortgage industry. In 2016, Sean Becketti, then the chief economist at Freddie Mac, wrote that rising seas "appear likely to destroy billions of dollars in property."

"The economic losses and social disruption may happen gradually, but they are likely to be greater in total than those experienced in the housing crisis and Great Recession," he wrote. "It is less likely that borrowers will continue to make mortgage payments if their homes are literally underwater."

Last year, Michael LaCour-Little, an economist at Fannie Mae, co-wrote a paper stating that while coastal flooding is likely to inundate a relatively small share of homes in the United States, the effects on home default rates could be felt much more widely.

"An increase in the vacancy rates, neighborhood blight and lack of amenities will exacerbate the decline in property values," Mr. LaCour-Little and his co-authors wrote. Borrowers in these areas "may face both the inability to repay their mortgage, and the inability to recoup enough funds when selling their house to cover the unpaid mortgage principle."

Mr. Ouazad said he hopes the new research opens a discussion about who bears the risks of climate change and about lending policies in danger zones. "Do we still want to have 30-year fixed mortgages in areas at risk of flooding?" Mr. Ouazad asked. "I'm not sure about that."

For more news on climate and the environment, follow @NYTClimate on Twitter.

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