The Honorable Jeb Hensarling
Chairman
House Financial Services Committee
Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

As the Financial Services Committee prepares to consider the Protecting American Taxpayers and Homeowners Act (PATH Act), the National Council of State Housing Agencies (NCSHA) writes to express our strong concerns that this legislation would substantially restrict state housing finance agencies' (HFAs) ability to help low-and moderate-income Americans access affordable housing.

NCSHA represents the HFAs that operate in every state, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. Though they vary widely in their characteristics, including their relationship to state government, HFAs share a common mission of supporting affordable housing lending help to those who need it.

HFAs have proven over many decades that affordable housing lending done right is good lending. HFAs do it right in the case of first-time homebuyer lending through a time-tested combination of low-cost financing; traditional fixed-rate, long-term products; flexible, but prudent, underwriting with careful credit evaluation; diligent loan documentation and income verification; down payment and closing cost assistance; homeownership counseling; and proactive servicing. HFAs have never engaged in risky subprime lending.

HFA loans have demonstrated superior performance compared to affordable home loans issued through other channels. In addition to their single-family lending, HFAs also administer high-performing multifamily lending programs that support the development of critically needed rental housing for low-income families.

A Wholly Private Secondary Mortgage Market Would Leave Many Consumers Behind

By eliminating Fannie Mae and Freddie Mac and not establishing a federal entity to take their place, the PATH Act would effectively privatize most of the housing finance market. Without federal support for the secondary mortgage market, investors are likely to require a higher return on mortgage-backed securities (MBS) in order to protect themselves against increased risk. This will force HFAs and other lenders to increase costs for consumers. A recent analysis by Mark Zandi of Moody's Analytics found that the PATH Act would increase the average borrower's mortgage rate by .9 percent. This would cost the average homeowner hundreds of dollars a year and price many low-and moderate-income families that HFAs serve out of the housing market. Some analysts have even determined that, under a privatized home finance system, the 30-year fixed rate mortgage, a product that has been the backbone of the American housing market, might only be available to high-income borrowers.

We also believe that a number of the provisions in the PATH Act that would limit Fannie Mae and Freddie Mac's affordable housing activities will also keep many responsible low-and moderate income consumers out of the housing market. First, the bill would eliminate both firms' statutory affordable housing goals. These requirements have played a critical role in providing HFAs and other affordable housing lenders access to the secondary market. Without these mandates, these firms will have less incentive to purchase or guarantee loans made to low- and moderate-income borrowers. HFAs' access to the secondary market could be curtailed.

NCSHA understands that some say Fannie Mae and Freddie Mac should not make affordable housing investments because that is what caused their financial problems, but that is not the case. Buying affordable loans did not get Fannie Mae and Freddie Mac into financial trouble. Buying bad loans did. While it is true that both Fannie Mae and Freddie Mac made investments in subprime, Alt-A, and other nontraditional mortgages that contributed significantly to their financial woes, they also made sound affordable housing investments in partnership with HFAs that have performed exceedingly well.

The PATH Act would also mandate that the GSEs increase guarantee fees annually so that they are in line with the private sector. This will increase borrowing cost for consumers, putting homeownership out of reach for many low- and moderate-income individuals and impairing HFAs' efforts to partner with Fannie Mae and Freddie Mac to fulfill their affordable housing mission.

Provisions in the PATH Act to reform the Federal Housing Administration (FHA) would also diminish HFAs' efforts to promote affordable homeownership in their states. Raising the down payment requirement on many home buyers from 3.5 percent to 5 percent will make some creditworthy borrowers ineligible for loans for lack of down payment money. The difficulty of saving up for a large down payment is often the biggest obstacle many borrowers face when trying to purchase a home. While some believe that requiring an increased down payment will improve loan performance, HFAs have shown that high loan-to-value (LTV) mortgages, when accompanied by responsible underwriting standards, strong servicing practices, and effective home buyer education, can be successful. A recent study conducted jointly by the University of North Carolina and Ohio State University found that high-LTV HFA loans performed well when compared to other affordable housing loans.

In addition, the bill's efforts to restrict FHA guarantees to non-first time homebuyers who earn 115 percent or less of area median income will hinder HFAs' efforts to help borrowers in federally defined targeted areas, where HFAs are allowed, under the well-established and proven federal tax-exempt Housing Bond program, to make loans to persons earning up to 140 percent of median income. We are also troubled that requiring FHA to reduce its insurance coverage on individual loans to 50 percent will substantially limit investor interest in FHA-backed loans, further increasing costs for borrowers.

The PATH Act Reduces Needed Support for Affordable Multifamily Home Financing

The PATH Act would also wind down Fannie Mae's and Freddie Mac's multifamily programs, which many HFAs have utilized successfully to finance affordable housing developments. Without these programs, HFAs and developers will have reduced access to capital for affordable housing developments. Both Fannie Mae's and Freddie Mac's multifamily portfolios have performed well and did not contribute to the firms' financial difficulties. Eliminating them will have little effect on the federal budget but will have a significant negative impact on HFAs' efforts to meet the growing housing needs of their states.

The PATH Act would also eliminate the Housing Trust Fund. Many HFAs have been planning to administer this fund for their states to help develop critically needed affordable housing. As more and more Americans are struggling to secure affordable housing and federal resources are being reduced, this is the absolute wrong time to eliminate this initiative.

The Wrong Approach for Economic Growth

In conclusion, while we understand the need to reform our housing finance system, we believe that adopting a wholly private secondary market system is a flawed approach that will make it exceedingly difficult for many responsible consumers to purchase an affordable home. The lack of an explicit government guarantee will increase lending costs, pricing many low- and moderate consumers out of the market. Many of these consumers would have been first-time home buyers, which historically play a large and catalytic role in the housing market. Without these buyers, many "move-up" buyers will struggle to sell their current homes and will have to delay their moves. Given the critical role housing plays in the U.S. economy, any slow-down could have severe effects on economic growth.

In addition, this bill will also hinder HFAs' efforts to fund the development of affordable multifamily homes that could address our nation's critical shortage of affordable rental housing. The lack of affordable rental housing impairs economic mobility and forces many families to cut back on spending in order to pay for expensive rents. This leaves less income for food, education, transportation, health care, and other vital items every family needs.

Thank you for considering our views as you consider legislation to reform our nation's housing finance system. We look forward to working together with you to develop a system that works for all Americans.

Sincerely,

Barbara Thompson

Barbara Thompson
Executive Director