Affordable Housing Will Be Key Challenge in GSE Reform Debate

By Victoria Finkle, American Banker, August 7, 2013

WASHINGTON — As Congress and the White House struggle to determine the appropriate role for government in the mortgage market, affordable housing is likely to prove a large hurdle on the path to housing finance reform.

Fannie Mae and Freddie Mac, which policymakers are trying to unwind, have operated with explicit affordable housing goals for more than 20 years. A big question in revamping the system is what replaces those goals and how much support the government should provide to housing assistance for low- and moderate-income borrowers.

The issue is one that has divided the political parties for decades — with Republicans now viewing the goals as significant contributors to the financial crisis — and it could again serve to delay or even derail broader negotiations.

"If the main focus of Republicans and conservatives is to protect taxpayers and to create a more free market system, then the same tenacity or goal of many on the left is to ensure access to mortgage finance at a reasonable rate and also ensure that people can rent in high-cost areas or if they are low-income," said Brandon Barford, a vice president at ACG Analytics. "And these two ideals are just completely anathema to each other."

Consensus seems to be growing around one major point: mandated affordable housing goals, like those used at the government-sponsored enterprises, are a non-starter.

"Goals today are politically toxic, and so it will be difficult to get broad support for that," said Andrew Jakabovics, senior director of policy development and research at Enterprise Community Partners. "It's clearly in recognition of the fact that there is a large segment of the population that has bought into the trope that the goals are the cause of the downfall. Politically, the goal as the cause of the crisis has traction — it doesn't have merit, but it has traction."

What exactly lawmakers would provide in terms of affordable housing provisions in a final bill is still unknown and will likely be the product of significant jockeying from stakeholders on all sides of the debate. But President Obama signaled that the issue remains a priority for the White House during a major address on housing Tuesday.

"We've got to keep housing affordable for first-time homebuyers. … When they're ready to buy a house, we've got to make sure it's affordable. Families who are working to climb their way into the middle class, we've got to do what we can to make housing affordable," he said, while emphasizing the growing need for affordable rental options as well.

The broad contours of GSE reform are starting to take shape around two plans in the House and Senate, both of which would unwind the GSEs and eliminate the affordable housing goals, though they otherwise different significantly in their approaches.
Legislation introduced by Sens. Bob Corker, R-Tenn., and Mark Warner, D-Va., develops a so-called "market access fund," building off recommendations for such a fund in several major policy papers published in recent years. The fund would be based on a small fee of 5 to 10 basis points assessed by the proposed Federal Mortgage Insurance Corp. on each securitized loan. That money would then be utilized by the National Housing Trust Fund and the Capital Magnet Fund, two programs developed by 2008 housing legislation that were supposed to be funded by Fannie and Freddie.

The House Financial Services Committee, meanwhile, narrowly passed a plan last month by Chairman Jeb Hensarling, R-Texas, and other GOP lawmakers that would eliminate the two trust funds in addition to any affordable housing goals. The bill would also refocus the Federal Housing Administration, which would be transformed into an independent agency, on providing credit access to first-time and lower-income borrowers.

The Corker-Warner bill seemingly offers wider government support for affordable housing than the Hensarling plan, but advocates have been wary of the Senate approach as well, warning that it doesn't go far enough in ensuring that the market provides access to a diverse set of borrowers.

"At the very minimum, there's got to be an explicit charge to whatever federal entity that's established to provide a federal guarantee that one of its purposes is to ensure that the secondary market offers liquidity to the full range of creditworthy borrowers and communities," said Barry Zigas, director of housing policy at the Consumer Federation of America. "When members think of it as, not specific goals and quotas, but that the system does not discriminate against creditworthy borrowers — I think that becomes a much more manageable proposition and a conversation people would support."

John Taylor, president and chief executive of the National Community Reinvestment Coalition, warned of a funding gap in what the market access fund would provide relative to the existing affordable housing goals. He estimated that the Corker-Warner bill, if it had been in place in 2011, would have provided between $456 million and $913 million to the housing funds, compared to the $196 billion in conventional loans made to low-income, rural and minority households under the GSEs.

"I don't think that there was due consideration to what the implications of eliminating those affordable housing goals would be," he said.

Taylor also cautioned that the bill does not require fees to be collected for the first five years after legislation is enacted, and that the money may not be disbursed for up to another five years, meaning it could be a decade before the affordable housing funds are used.

Still, the Corker-Warner plan is notable in that it's already attracted the support of several conservative lawmakers, including Sens. Mike Johanns of Nebraska, Dean Heller of Nevada, Mark Kirk of Illinois and Jerry Moran of Kansas. Observers said that the key to getting more Republicans on board with a plan that includes an affordable housing program will be targeting assistance for the most needy and ensuring greater transparency, issues raised in the Treasury Department's 2011 white paper on housing reform as well.

"To me, that's what's needed to assure people on the right, including myself, that it's not just a slush fund for ACORN," said Phillip Swagel, a professor at the University of Maryland and contributor to a recent bipartisan paper that outlines a reform plan very similar to that offered in Corker-Warner, including the use of a market access fund.
The paper goes into more detail than the current version of the Senate bill in terms of how certain affordable housing provisions would work, which Swagel said was part of why he agreed to its inclusion.

"That's a part of the paper in which we really tried to be specific — how would the money be used and how many people would be helped?" said Swagel.

How supporters frame the issue will also be critical, analysts predicted.

"I think Mark Warner is trying to do his best to sidestep the argument over what was role of Fannie Mae and Freddie Mac in the crisis debate," said Mark Calabria, director of financial regulation studies at the Cato Institute. "Putting emphasis on goals just puts you in that debate."

Jakabovics added that it is possible to find consensus to help shape the discussion. Both political parties agree, for example, that more private capital is needed in the market than currently exists today. That could be one way to convince Republicans to provide support for low-income borrowers beyond FHA, Jakabovics said.

"I think there's still common ground to say look, FHA can be the only way in which low- and moderate-income households get mortgages, or we can do it in a way that brings in private capital, which is what everyone wants to see anyway," he said. "It has to do with how you approach the question and how it gets framed. There's a window to make those arguments to get bipartisan support."

Even the House plan, which has been strongly criticized by advocates for relegating affordable housing to the FHA, provides a start for the discussion, said Judith Kennedy, president and chief executive of the National Association of Affordable Housing Lenders.

"The idea that FHA is being refocused on its original mission to assist low- and moderate-income borrowers and renters really is a huge improvement over the status quo. We've all talked for years about restoring more of a balance in federal housing policy between homeownership and rental," she said, noting that the agency's board of directors would also need to have at least one expert on affordable housing issues. "To have this bill that some people are calling the conservative boundary acknowledging the importance of restoring that balance, and having federal policy support low- to middle-income homebuyers and renters, is huge."