

# N A A H L

**NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS**

## **THE GSEs' AFFORDABLE HOUSING GOALS DID NOT CONTRIBUTE TO THE MORTGAGE CRISIS**

### **WHAT ARE THE GSEs' AFFORDABLE HOUSING GOALS?**

In 1992, Congress authorized Fannie Mae and Freddie Mac to take "less of a return" to finance responsible single-family mortgages for LMI people and communities.

*"The affordable housing [goals] under the current system spurred innovations that have promoted responsible homeownership among lower-income families." - HUD Secretary Shaun Donovan in testimony before the House Financial Services Committee<sup>i</sup>*

### **THE ALLEGATION**

Affordable housing goals "forced" Fannie Mae and Freddie Mac to invest in high-cost subprime loans, contributing to the mortgage meltdown.

### **THE TRUTH**

Instead of taking less of a return to finance responsible 30-year fixed rate loans, of which there were plenty available to satisfy their goals, Fannie Mae and Freddie Mac decided to extract more of a return by financing the spread of a higher-cost, unregulated subprime market that eventually imploded.

### **THE PROOF**

#### **From the get-go, Fannie and Freddie preferred to "game" their affordable housing goals**

Multiple, independent reports have disclosed how often the GSEs manipulated the affordable housing goals for their own benefit, with their regulators' complicity.

*In a 2010 history of the financial crisis, "All the Devils Are Here," by business journalists Joe Nocera and Bethany McLean, Fannie Mae executives are reported as bragging about writing "the housing goals ... in such a way they had no teeth" and that Fannie Mae "preferred to game their housing goals rather than meet them, using methods that Fannie Mae internally referred to as 'stupid pet tricks'". This, even though "a mortgage made to the average American family counted towards the purported goals."*

Nocera and McLean also wrote that retired Fannie Mae CEO David Maxwell, who left the company in 1991, "concede[d] with great sadness, that Fannie Mae has forgotten a simple question: Why are we here?"<sup>ii</sup>

## **The GSEs easily exceeded their affordable housing goals every year until 2008**

The GSEs didn't need to buy subprime loans to achieve their affordable housing goals, which actually trailed the private sector's investment in affordable housing by a significant amount<sup>iii</sup>.

*"...the GSEs only purchased one-third of the 'safe' mortgages that were available to them to satisfy their affordable housing goals." - HUD Secretary Shaun Donovan<sup>iv</sup>*

## **The quest for profit at any cost - even at the cost of their affordable housing mission - drove the GSEs to invest in subprime loans**

The GSEs lost market share as risky lending, driven by the private sector, exploded. Between 2003 and 2006 the GSEs' net income was cut in half<sup>v</sup>. When faced with shareholder and executive pressure to play "profits catch up" the GSEs dove into subprime, despite their mandate to "take less of a return"<sup>vi</sup>. Furthermore, their former safety and soundness regulator reports that the GSEs resisted regulation with intimidation tactics and corner-cutting<sup>vii</sup>.

The vast majority of government officials and private sector experts have set the record straight about how it was greed, not their affordable housing mission, which got Fannie Mae and Freddie Mac into financial trouble:

*"Some have argued that [affordable housing] goals were a principal cause of Fannie and Freddie's collapse and subsequent losses. But this argument is simply not supported by the facts ... one of the primary factors driving GSE losses was the desire to recapture market share and increase profits." - HUD Secretary Shaun Donovan<sup>viii</sup>.*

*"Some have claimed that Fannie and Freddie's collapse was caused by the government's imposition of affordable housing goals. This claim is simply not supported by the facts. Affordable housing goals did not drive the GSEs to the poor decisions that caused them to fail. The GSEs relaxed standards for the same reasons other market participants relaxed standards: old-fashioned greed and flawed regulation." - Former Treasury Department Assistant Secretary for Financial Institutions and Michigan Law Professor Michael Barr, in a speech delivered to the Mortgage Bankers Association<sup>ix</sup>*

*"In my opinion, the goals were not the cause of the enterprises' demise. The firms would not engage in any activity, goal fulfilling or otherwise, unless there was a profit to be made. Fannie and Freddie invested in subprime and Alt A mortgages in order to increase profits and regain market share. Any impact on meeting affordable housing goals was a byproduct of the activity..." - Former Office of Federal Housing Enterprise Oversight (OFHEO) Director Armando Falcon, in testimony before the Financial Crisis Inquiry Commission<sup>x</sup>*

*"In the years leading up to the housing crisis, and with the help of some lawmakers in Congress, Fannie and Freddie abused their roles in stimulating homeownership. They began to replace prudent lending standards with a drive to guarantee and hold more mortgages, some of them risky, in order to maximize commissions." - House Budget Committee Chairman Paul Ryan (R-Wisc.) in his FY2012 Federal budget proposal<sup>xi</sup>*

*"The shareholders of Fannie and Freddie and the employees of Fannie and Freddie pocketed every penny..." Dwight Jaffee, UC Berkeley Economist specializing in the U.S. housing market<sup>xii</sup>*

## **The loans that did the most damage to the GSEs' portfolios were ones that did NOT count toward their affordable housing goals**

"Alt-A" loans - which often lacked any information about a borrower's income - accounted for only 12% of the GSEs' investments but resulted in 50% of their losses<sup>xiii</sup>. And the loans were, on average, \$250,000 for a single family home - too high to count toward any affordable housing goals<sup>xiv</sup>.

## **THE VERDICT**

Affordable housing goals are NOT guilty. The Financial Crisis Inquiry Commission overwhelmingly cleared the GSEs' affordable housing goals of any wrongdoing in the mortgage meltdown after hearing hours of testimony from government officials and private sector experts. While Fannie and Freddie executives might want to blame these goals for the GSEs' problems rather than own up to their own greed and mismanagement of the corporations, the facts tell a different story.

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<sup>i</sup> Donovan, Shaun (2010). "Housing Finance- What Should the New System Be Able to Do? Part II-Government and Stakeholder Perspectives." April 14, 2010 testimony before the House Financial Services Committee. Available online at [http://archives.financialservices.house.gov/media/file/hearings/111/hud\\_testimony\\_-\\_gses\\_and\\_housing\\_finance\\_reform\\_-\\_final.pdf](http://archives.financialservices.house.gov/media/file/hearings/111/hud_testimony_-_gses_and_housing_finance_reform_-_final.pdf).

<sup>ii</sup> Nocera, Joe and Bethany McLean (2010). All the Devils Are Here: The Hidden History of the Financial Crisis. Pages 48-9 & 50-51.

<sup>iii</sup> Federal Housing Finance Agency. "The Housing Goals of Fannie Mae and Freddie Mac in the Context of the Mortgage Market: 1996-2009." Mortgage Market Note 10-2. February 1, 2010. Available online at: <http://www.fhfa.gov/webfiles/15419/>.

Park, Kevin (2008). "Fannie, Freddie, and the Foreclosure Crisis." University of North Carolina, Chapel Hill - Center for Community Capital. Page 4.

Nocera, Joe and Bethany McLean (2010). All the Devils Are Here: The Hidden History of the Financial Crisis. Pages 48-9.

<sup>iv</sup> Donovan, Shaun (2010). "Housing Finance- What Should the New System Be Able to Do? Part II-Government and Stakeholder Perspectives." April 14, 2010 testimony before the House Financial Services Committee. Available online at [http://archives.financialservices.house.gov/media/file/hearings/111/hud\\_testimony\\_-\\_gses\\_and\\_housing\\_finance\\_reform\\_-\\_final.pdf](http://archives.financialservices.house.gov/media/file/hearings/111/hud_testimony_-_gses_and_housing_finance_reform_-_final.pdf).

<sup>v</sup> Park, Kevin (2008). "Fannie, Freddie, and the Foreclosure Crisis." University of North Carolina, Chapel Hill - Center for Community Capital. Page 4.

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<sup>vi</sup>Blumberg, Alex (2011). "Self Fulfilling Prophecy: The Bail-Out of Fannie and Freddie." National Public Radio. Available online at: <http://www.npr.org/blogs/money/2011/04/21/134863767/self-fulfilling-prophecy-the-bailout-of-fannie-and-freddie>.

<sup>vii</sup>Falcon, Armando (2010). April 9, 2010 testimony submitted to the Financial Crisis Inquiry Commission. Pages 5-8. Available online at: [http://fcic-static.law.stanford.edu/cdn\\_media/fcic-testimony/2010-0409-Falcon.pdf](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0409-Falcon.pdf).

<sup>viii</sup> Donovan, Shaun (2010). "Housing Finance- What Should the New System Be Able to Do? Part II-Government and Stakeholder Perspectives." April 14, 2010 testimony before the House Financial Services Committee. Available online at [http://archives.financialservices.house.gov/media/file/hearings/111/hud\\_testimony\\_-\\_gses\\_and\\_housing\\_finance\\_reform\\_-\\_final.pdf](http://archives.financialservices.house.gov/media/file/hearings/111/hud_testimony_-_gses_and_housing_finance_reform_-_final.pdf).

<sup>ix</sup> Barr, Michael (2010). April 13, 2010 speech to Mortgage Bankers Association. Available online at: <http://www.treasury.gov/press-center/press-releases/Pages/tg638.aspx>.

<sup>x</sup> Falcon, Armando (2010). April 9, 2010 testimony submitted to the Financial Crisis Inquiry Commission. Available online at: [http://fcic-static.law.stanford.edu/cdn\\_media/fcic-testimony/2010-0409-Falcon.pdf](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0409-Falcon.pdf).

<sup>xi</sup> Ryan, Paul (2010). "The Path to Prosperity: Restoring America's Promise." House Committee on the Budget. Page 35. Available online at: [http://www.naahl.org/Portals/11/Affordable%20Housing%20Goals/2011-04-05\\_GOP-FY2012-Budget-Proposal.pdf](http://www.naahl.org/Portals/11/Affordable%20Housing%20Goals/2011-04-05_GOP-FY2012-Budget-Proposal.pdf).

<sup>xii</sup> Blumberg, Alex. "Kill Them, Bury Them: The Rise of Fannie and Freddie." NPR. March 28, 2011. Available online at: <http://www.npr.org/blogs/money/2011/04/22/134863603/kill-them-bury-them-the-rise-of-fannie-and-freddie>.

<sup>xiii</sup> Fannie Mae investor presentation. "Fannie Mae 2008 Q2 10-Q Investor Summary," (Aug. 6, 2008), p. 36, available at [www.fanniemae.com/media/pdf/webcast/080808transcript.pdf](http://www.fanniemae.com/media/pdf/webcast/080808transcript.pdf).

Federal National Mortgage Association, U.S. SEC Form 10-Q, for quarterly period ended June 30, 2008, p.6, available at [www.fanniemae.com/ir/pdf/earnings/2008/q22008.pdf](http://www.fanniemae.com/ir/pdf/earnings/2008/q22008.pdf).

Federal Home Loan Mortgage Corporation, United States SEC 10-Q, for the quarterly period ended June 30, 2008, p.71, available at [www.freddiemac.com/investors/](http://www.freddiemac.com/investors/).

<sup>xiv</sup> Park, Kevin (2008). "Fannie, Freddie, and the Foreclosure Crisis." University of North Carolina, Chapel Hill - Center for Community Capital. Page 5.