

N A A H L

NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS

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600 New Hampshire Ave., NW
Washington, DC 20037

To the Editor,

In his Dec. 13, 2011 column, “Hey Barney Frank: The Government Did Cause the Housing Crisis,” Peter Wallison repeats his allegation that Fannie Mae and Freddie Mac’s affordable housing goals helped cause the financial crisis. He mistakenly calls the GSEs’ goals “quotas” in an effort to depict Federal government housing policy as the ultimate impetus for the mortgage meltdown.

Just one example of Wallison’s errors: the 1992 Federal law he cites in his explanation didn’t actually require Fannie Mae and Freddie Mac to “meet government quotas” when they purchased loans from banks and other mortgage originators. In fact, Congress just allowed the GSEs to “take less than the return earned on other activities” to finance mortgages for average income homebuyers. Unfortunately, Fannie Mae and Freddie Mac used the goals as cover to maximize profits at the expense of mission. They took advantage of borrowers and extracted more of a return by pumping capital into a higher-cost, unregulated subprime market, the implosion of which *did* play a significant role in the housing bust.

Federal housing policy may have promoted homeownership, but it didn’t force Fannie Mae or Freddie Mac to finance 40 percent of subprime and Alt-A mortgages during the housing boom, when, as Joe Nocera and Bethany McLean write in their 2010 book *All the Devils Are Here*, “a mortgage made to the average American family counted towards the purported goals.” Multiple Federal reports have disclosed how the GSEs manipulated their affordable housing goals to maximize their profits. Nocera and McLean report in their book that Fannie Mae executives bragged about writing “the housing goals ... in such a way they had no teeth.”

As HUD Secretary Shaun Donovan told Congress last year, “... one of the primary factors driving GSE losses was the desire to recapture market share and increase profits.” House Budget Committee Chairman Paul Ryan (R-Wisc.) echoed this in his 2012 budget plan, “...[the GSEs] began to replace prudent lending standards with a drive to guarantee and hold more mortgages, some of them risky, in order to maximize commissions.”

Finally, former Treasury official Michael Barr summed it up succinctly when he said in a 2010 speech: “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.”

Sincerely,

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