

Affordability Advocate Laments Weaker GSE Goals

Inside the GSEs, May 6, 2009

Last week, the Federal Housing Finance Agency released a proposed rule that would ratchet down the GSEs' affordable housing goals to 2004-2006 levels, a move that "might be devastating to the economy," according to National Association of Affordable Housing Lenders President and CEO Judy Kennedy.

"The liquidity crisis confronting responsible lenders, both banks and nonprofits, is huge, and we have tried to educate the FHFA about it since last August," she told *Inside The GSEs*. "And the tragedy is that in many states, our nonprofit lenders – blue chip lenders with 20 to 40 years of experience on affordable rental housing – are really the lenders of last resort, because of the crises in the bond markets and in banks' capital positions.

"Our nonprofit lenders have mortgage applications for affordable rental housing, both preservation of existing affordable housing and construction of new Low Income Housing Tax Credit housing, of about 400 percent of what they can fund," she continued. "And in the absence of being able to sell seasoned, performing multifamily mortgages to Fannie and Freddie, they're going to have to turn those applications down."

According to Kennedy, about 75 percent of all rental housing starts involve the LIHTC. "But because of the condition of the bond markets, we have nonprofits sitting on portfolios of these seasoned multifamily mortgages that have little or no options to replenish their supply of funds," she said.

According to the FHFA, however, its decision was driven by different market dynamics. "FHFA has determined that in light of current market conditions, the 2009 housing goal and home purchase subgoal levels previously established in regulation are not feasible unless they are adjusted," said FHFA Director James Lockhart in announcing his agency's submission of a proposed rule to the *Federal Register*. "Restrictions on the availability of private mortgage insurance for borrowers with lower down payments, a surge in refinancing, particularly by higher income borrowers, the increasingly important role of FHA in the mortgage marketplace and a slowdown in the multifamily market, among other factors, mean fewer goals qualifying loans in 2009."

The FHFA is proposing to adjust the overall 2009 GSE housing goals generally to the levels that prevailed during 2004 through 2006. That means the proposed "special affordable multifamily" goal for 2009 is \$5.49 billion for Fannie and \$3.92 billion for Freddie. Further, loan modifications by either GSE that are consistent with the Obama Administration's initiatives are to receive housing goals credit. The FHFA comment period expires 21 days from the date of publication in the *Federal Register*, which is expected any day.