

Letter to the Editor, Wall Street Journal, November 1, 2011

Charles Calomiris's ["The Mortgage Crisis: Some Inside Views"](#) (op-ed, Oct. 27) is a Halloween house of "errors" that blames Fannie Mae and Freddie Mac's affordable housing goals for mortgage investments that drove them into the graveyard. He contends that Fannie and Freddie lowered their underwriting standards because of the goals. It's a horror story, but it's not true.

The truth is clear. A 1992 law allowed the government-sponsored entities to "take less than the return earned on other activities" to finance mortgages for average-income home buyers, but Fannie and Freddie played tricks instead, using the goals as cover to maximize profits at the expense of mission. Indeed, their affordable housing mission was once described as a fig leaf to hide their financing of subprime loans.

HUD Secretary Shaun Donovan told Congress last year the GSEs only purchased one-third of the safe mortgages that were available to them to satisfy their affordable housing goals, adding "one of the primary factors driving GSE losses was the desire to recapture market share and increase profits."

Former Treasury official Michael Barr concurred, saying "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."

There's been a retelling of how the mortgage meltdown and financial crisis occurred that makes lending to underserved areas the cause of a world-wide calamity.

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