House Appropriations Committee Approves FY 2015 HUD Funding Bill

 Posted: 5/22/2014

On May 21, the House Appropriations Committee reported by a vote of 28 to 21 the FY 2015 Transportation-HUD (T-HUD) appropriations bill. The House bill has a funding level of $52.03 billion, $1.2 billion more than the FY 2014 enacted funding level and $7.8 billion less than the President’s FY 2015 Budget request. However, as noted during the markup by the Committee and Subcommittee leaders, the bill’s funding level is effectively $1.8 billion less than the FY 2014 enacted level due to a decrease in receipts available from the Federal Housing Administration (FHA) to offset spending in the bill.

During the markup, the Committee adopted amendments to increase funding for the U.S. Interagency Council on Homelessness (USICH) by $1 million and to direct HUD to evaluate and report on the effect of Housing Choice Voucher (voucher) portability on costs to certain public housing authorities (PHAs). It also accepted a manager’s amendment that includes provisions to increase funding for HUD’s housing counseling program by $2 million to $47 million and to increase funding for the Housing Opportunities for Persons with AIDS program (HOPWA) by $2.9 million to $305.9 million. The Committee rejected amendments to increase funding for the HOME and Community Development Block Grant (CDBG) programs. Other than the additional funding for housing counseling, HOPWA, and USICH, the funding levels for HUD programs remain unchanged from the May 7 Subcommittee-reported bill, which NCSHA describes in this blog post.

In his opening statement, Subcommittee Chairman Tom Latham (R-IA) reiterated points he made during the Subcommittee markup, stating that the bill provides sufficient funds to keep all families currently receiving housing assistance under the umbrella of the various HUD programs. Subcommittee Ranking Member Ed Pastor (D-AZ) said the bill freezes many programs at last year’s funding level and cuts a number of programs, including the HOME and Lead-Based Paint Hazard Reduction programs. He said he is hopeful they will be able to address some of these shortfalls as the bill moves through the process.

In his opening statement, Committee Chairman Hal Rogers (R-KY) stated, “This bill focuses funding on the infrastructure that grows the American economy and on the housing options that protect our most vulnerable citizens.” As she did in the Subcommittee markup, Committee Ranking Member Nita Lowey (D-NY) stated she is concerned about the bill’s proposed cuts to the HOME program and the Public Housing Capital Fund, which she said are vital to the rehabilitation and modernization of the country’s affordable housing stock. She reiterated that the proposed $700 million funding level for HOME is the lowest in the program’s history.
Representative Adam Schiff (D-CA) offered an amendment on behalf of himself and Representative Betty McCollum (D-MN) to increase funding for HOME by $900 million to $1.6 billion. Chairman Latham said he had to oppose the amendment because it did not have an offset and therefore would cause the bill to exceed its spending cap. The amendment was not adopted.

Schiff also offered an amendment to direct HUD to use an alternate formula to reimburse housing authorities monthly for the cost of administering ported vouchers. Latham opposed the amendment and said the provision should be left to the authorizers. Latham offered to work with Schiff on the issue and Schiff withdrew the amendment. Later in the markup, the Committee adopted an amendment worked out by Latham and Schiff to include report language requiring HUD to report on the effect of voucher portability on costs to certain public housing authorities (PHAs).

Representative Marcy Kaptur (D-OH) offered an amendment to increase funding for CDBG by $270 million to $3.27 billion. Latham commented that they all know how important the program is and said they tried to be supportive of the program in the bill. He opposed the amendment because there was no offset offered. The amendment was rejected on a recorded vote of 22 to 28.

Representative Mike Quigley (D-IL) offered and then withdrew an amendment to increase from 60,000 to 250,000 the statutory cap on the number of public housing units that can be converted under the Rental Assistance Demonstration (RAD). Latham said the provision should be left to the authorizers and stated the Committee still has a lot of outstanding questions about RAD’s long-term impact on the project-based Section 8 account. Latham added that the Committee received a letter from House Financial Services Committee Ranking Member Maxine Waters (D-CA) asking the Committee to not increase the cap.

The Committee adopted Representative David Price’s (D-NC) amendment to transfer $1 million from HUD’s information technology account to USICH after Latham modified the amendment by reinstating USICH’s sunset date, which is October 1, 2016. Price’s amendment would have authorized USICH indefinitely. Latham also agreed to work with Representative Chellie Pingree (D-ME) to find an offset to restore funding for the lead hazard reduction program after she agreed to withdraw her amendment to increase the program’s funding level.

As reported in NCSHA’s May 7 post, the bill would provide the following FY 2015 funding levels:

- $700 million for the HOME program, $300 million less than the FY 2014 level and $250 million less than the President’s FY 2015 Budget request.
- $9.7 billion for project-based Section 8, $171 million less than the FY 2014 level and equal to the President’s request.
- $17.7 billion for voucher renewals, $328 million more than the FY 2014 level and $313 million less than the President’s request.
- $3 billion for CDBG, $30 million less than the FY 2014 level and $200 million more than the President’s request.
- $2.1 billion for homeless assistance grants, equal to the FY 2014 enacted level and $301 million less than the President’s request.
Prior to the markup, the Subcommittee released report language to accompany the bill. The report provides an explanation of provisions in the bill.

The report states that the Committee acknowledges the bill’s funding level for project-based Section 8 would provide less than 12 months of funding for some contracts. It states the funding level is based on the Administration’s proposal to shift to a calendar year funding cycle for payments on renewal contracts.

In the report’s section on Community Planning and Development programs, which includes HOME and CDBG, the Committee acknowledges that “at reduced funding levels communities will need to be innovative in finding ways to do more with less by leveraging State, local, and private sector partnerships.”

The report also states, “The Committee concurs with decisions by the Government Accountability Office (GAO) and the Court of Appeals for the Federal Circuit that HUD’s contracts for performance based contract administrator (PBCA) services are procurement contracts. The recommendation rejects the request to give HUD authority to administer PBCA funds as grants or cooperative agreements and directs HUD to follow the law and GAO by soliciting and awarding procurement contracts under full and open competition and without geographic limitations. The Committee further directs HUD to carry out these procurement processes in a manner that is compliant with requirements under the Federal Acquisition Regulation and the Competition in Contracting Act.”

The report says the Committee’s bill reflects the Administration’s proposal to reorganize the Self-help and Assisted Homeownership Opportunity Program (SHOP) as a set-aside within the HOME program. The President’s Budget requests that up to $10 million within the HOME account be set-aside for SHOP.

The schedule for consideration of the bill by the House has not been announced. The Senate T-HUD Subcommittee has not released its FY 2015 funding bill, but is expected to markup the bill in early June. See NCSHA’s funding chart for additional information on HUD and USDA housing program funding levels.
House Financial Services Committee Approves Multiple Bills Affecting Real Estate Finance

On May 22, the House Financial Services Committee held a markup and passed 11 bills out of Committee. Generally, if enacted, these bills would enhance capital formation for small and emerging growth companies and provide regulatory relief for community financial institutions.

All four of the bills that MBA watched closely passed Committee, including H.R. 1799, which passed by voice vote. This bill would clarify that a retailer of a manufactured home, or its employees, is not a “mortgage originator” for purposes of the Truth In Lending Act unless the person receives compensation from a lender, mortgage broker or originator.

Additionally, H.R. 4521 passed by a 43-16 vote, which would address concerns that Consumer Financial Protection Bureau final rules implementing Dodd-Frank’s escrow and mortgage servicing requirements are overly burdensome for community financial institutions.

H.R. 4466 was also approved, by a vote of 34-25, which would require numerous federal regulators with authority over the real estate finance industry to assess whether newly proposed regulations or orders already exist and to address duplicative rules to reduce unnecessary regulatory burdens.

Finally, H.R. 2673 was passed by a 36-23 vote. This bill would address the onerous requirements of Section 1411 of Dodd-Frank and would codify the understanding that community bankers who hold mortgages on portfolio have a vested interest in ensuring that their customers repay their mortgages. The bills now await possible consideration by the full House.

For more information, please contact Dion Spencer, (202) 557-2741 dspencer@mba.org; or Len Wolfson, (202) 557-2712 lwolfson@mba.org.
What's next for Johnson-Crapo?

Industry reacts positively; opponents say it's DOA

Trey Garrison May 15, 2014

The Senate Committee on Banking, Housing, and Urban Affairs passed to the floor the Housing Finance Reform and Taxpayer Protection Act, commonly known as Johnson-Crapo, by a 13-9 vote Thursday morning.

Johnson-Crapo, supporters say, would reform the U.S. housing finance system by winding down Fannie Mae and Freddie Mac and replacing them with a new system in which private capital would be in a first-loss position prior to a catastrophic government guarantee being made available.

As described by the Structured Finance Industry Group, this system would be regulated by the newly created Federal Mortgage Insurance Corporation and backstopped by the Mortgage Insurance Fund.

Notably, two manager’s amendments, no. 2 and no. 98, passed the Committee to amend the bill. Summaries of these amendments can be read here. An amendment that would prohibit federal entities from purchasing or insuring mortgage loans in municipalities that use eminent domain to seize underwater mortgages was defeated by the Committee in a 14-8 vote.

With its approval vote from the committee, the next move will be up to the Senate majority leader, who will decide when or if to bring the bill to a vote in the full Senate.

Reaction within the housing industry is largely positive.

David Stevens, president and CEO of the Mortgage Bankers Association said the group will work to have Johnson-Crapo brought to the Senate floor.

“MBA commends the Senate Banking Committee for voting this bill out of committee for consideration by the full Senate. Chairman Johnson and Ranking Member Crapo are to be applauded for coming together in a bi-partisan fashion and creating a piece of legislation that reforms our housing finance system in a way that ensures sufficient liquidity for single family and multifamily mortgages while also protecting taxpayers,” Stevens said.
“Passing the committee is an important step on the road to reform, but plenty of work remains. MBA is eager to continue working with the members of the Senate, as well as other stakeholders, to find common ground and bring housing finance reform legislation to the Senate floor,” he said.

Groups including the Credit Union National Association, National Association of Federal Credit Unions, National Association of Realtors, National Association of Home Builders, the National Housing Conference and Habitat for Humanity support the GSE reform.

Bipartisan Policy Center Housing Commission co-chairs Secretary Henry Cisneros and Sens. George Mitchell, Kit Bond and Mel Martinez said in a joint statement that they hope Johnson-Crapo passes because the current situation is untenable.

“Our nation’s government-dominated housing finance system is unsustainable and continues to pose unacceptable risks to our nation’s taxpayers and the overall economy. At the same time, too many creditworthy families are being shut out of the mortgage market altogether, in part because the uncertainty surrounding the future architecture of our mortgage system has discouraged lending and dampened the housing market,” the joint statement read.

The vote came even as fiscal conservatives, affordable housing advocates, GSE shareholders, and free market policy advocates are finding common cause against the measure.

“It’s taken the Senate almost six years to produce a bill that can’t pass the full Senate. Brilliant. Well done,” said Anthony Sanders, distinguished professor of real estate finance at George Mason University, and a critic of the legislation.

National Community Reinvestment Coalition’s president and CEO John Taylor said he sees the bill having a negative impact on access to credit for minorities and lower income borrowers.

“The deeply divided committee vote is a clear signal that this bill is dead in the water, and with good reason. Significant changes are needed before it could provide the access to affordable credit guaranteed by Fannie Mae and Freddie Mac. If this bill became law in its current form, it would be a giant step backward for the working class, people of color, millennials, and other traditionally underserved markets,” Taylor said. “Our system of housing finance is the most successful one in the industrialized world. The overwhelming majority of Americans build wealth through homeownership, and this bill would make it much harder to have that opportunity. Time to go back to the drawing board and develop legislation that works for everyone.”

What is the future for Johnson-Crapo?

Should the bill not go before the Senate before the mid-term elections, it is unlikely it will see light again. This unlikelihood grows substantially if the Republicans take control of the Senate from the Democrats.
A note from Compass Point Research & Trading goes through the various scenarios.

“Depending on the result of the midterm election, and internal Senate politics thereafter, we believe one of four Senators will be the next Chair of the Senate Banking Committee: (1) Senator Shelby; (2) Senator Brown; (3) Senator Crapo; or (4) Senator Schumer. Of these four, only Senator Crapo voted in favor of the legislation,” Compass Point’s analysts say. “More notably, Senators Shelby and Brown – who we view as the Democratic and Republican front-runners for the post – both offered detailed statements of opposition to the bill. Senator Shelby noted his concerns about the mechanics of the platform, taxpayer protection, and the functioning of the regulatory framework.”

They also note that Senator Brown highlighted concerns that large banks would dominate the system, geographic disparities could arise, and mortgage credit for low-to-moderate borrowers could be constrained.

“The concerns expressed by both Senator Brown and Senator Shelby in their opening statements illustrate the difficulty in restarting the GSE reform conversation in the next Congress,” the Compass Point note says.

Johnson-Crapo is also pretty much dead in the House, at least according to the House leadership.

House Financial Services Committee Chairman Jeb Hensarling, R-Texas, who backs the PATH Act, said Johnson-Crapo was simply a wealth redistribution scheme.

“The fact remains the window for action this year is quickly closing, and I fear it may already be too late during this Congress with an already full agenda to get meaningful reform bills through both chambers. Additionally, while there are several commonsense provisions in Senate bill that are similar to those we included in the PATH Act, the Senate bill features a controversial and irresponsible new politicization of mortgage credit insisted by Senate Democrats under the guise of affordable housing,” Hensarling said.

“This wealth redistribution scheme, far worse than that of the current system, would be a multi-billion dollar annual invitation to return to the lower credit standards, higher risks, and unsustainable lending that created the crisis in the first place.”

The FHFA will likely remain at the center of attention.

“We continue to believe that Senator Reid is unlikely to bring the Johnson-Crapo GSE reform bill to a floor vote due to both legislative and political concerns. Given our view that GSE reform legislation will not advance further in this Congress, we believe that the FHFA will likely remain the center of the housing policy universe for the foreseeable future,” Compass Point says.
Cloture Motion Fails on Senate Tax Extenders Bill
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This afternoon, the Senate failed to achieve cloture on tax extender legislation, H.R. 3474. This means the Senate will not consider the bill further for the foreseeable future, which could be until after the fall midterm elections in November. While the bill enjoys strong bipartisan support, virtually all Republicans voted against cloture because of a disagreement with the Senate Democratic leadership on what and how many amendments the Republicans would be allowed to offer on the bill.

Reported by the Finance Committee on April 3, the bill contains provisions to extend the 9 percent Housing Credit rate floor for allocations made in 2014 and 2015 and to also establish in those years a 4 percent Credit rate floor for the acquisition Credit. (The 4 percent floor would not apply to tax-exempt bond-financed developments.) NCSHA has long sought permanent 9 and 4 percent acquisition Credit rate floors. The bill also extends some 50 other tax provisions.

The House is taking a very different approach to tax extender legislation, with Ways and Means Committee Chairman Dave Camp (R-MI) moving through his Committee in individual bills the six extenders his tax reform discussion draft calls to make permanent. The full House passed the first of those Committee-reported permanent extenders, the Research and Development Credit, on May 9.

Camp has said that Committee members who wish to advance other tax extenders will need to put forward for the Committee’s consideration individual bills, but he has provided little more information on how this process would work. Camp has also said that it is possible his Committee may consider later in the year legislation extending a group of expiring provisions.

Meanwhile, Revenue Measures Subcommittee Chairman Pat Tiberi (R-OH) and Ranking Member Richard Neal (D-MA) are preparing to introduce later this month legislation they sponsored in the last Congress, H.R. 3661, to establish on a permanent basis the 9 percent and 4 percent acquisition Housing Credit rate floors. We believe a strong bipartisan show of support for this legislation, especially among Ways and Means Committee members, would help to convince Camp to move it forward.
President Obama plans to announce a Cabinet shuffle next week, asking San Antonio Mayor Julian Castro to take the reins at the Department of Housing and Urban Development and moving current Housing Secretary Shaun Donovan to the Office of Management and Budget as its next director, according to Democratic officials familiar with the proposed moves.

Both men have reportedly agreed to the plan, and the White House is expected make the nominations public in the coming days.

Castro, 39, is serving his third two-year term as mayor of the nation's seventh-largest city and earned national attention in 2012 when he gave the keynote address at the Democratic National Convention. Ever since, Castro has been considered one of a handful of Democrats who could serve as the party's vice presidential nominee in 2016, especially if Hillary Rodham Clinton wins the Democratic nomination for president.

The mayor has been undergoing vetting by the FBI for a possible Cabinet post, according to two government officials who were not authorized to discuss the process publicly. Castro had previously rejected offers from Obama join his Cabinet, but was approached again a few weeks ago about taking the HUD job.

White House spokesman Eric Schultz said Saturday that the there was no personnel announcement to make "at this time."

Donovan, the current HUD chief, has served as head of the nation's top housing agency since the start of the Obama administration. He has been rumored for years to be up for consideration for other government posts. Currently, the position of director of the Office of Management and Budget is expected to become vacant soon as Sylvia Mathews Burwell prepares to depart to become the new secretary of health and human services.

Castro's nomination could result in Obama adding a Hispanic appointee to a Cabinet that only lightly represents the nation's fastest-growing voter bloc. The White House has faced criticism in recent years for not appointing more minorities, especially Hispanics, to senior government jobs, especially since Latinos provided strong support for Obama in 2008 and 2012.

Castro's twin brother, Joaquin Castro, is a first-term Democratic congressman representing a San Antonio-area district.
Castro's hometown newspaper, the San Antonio Express-News, first reported the developments Saturday.

Juliet Eilperin contributed to this report.
Moody's Finds Decrease in HFA Delinquency Rates

On May 12, Moody's Investors Service released a special comment on state HFA delinquency rates. According to the report, delinquency rates for HFA loans 60-89 and 90+ days past due decreased on a year-over-year basis for the first time since 2009.

Although delinquencies remain high for state HFAs, Moody's has found that, from December 2012 to December 2013, delinquencies declined by 5.79 percent for loans 60-89 days past due and by 1.61 percent for loans 90+ days past due. According to Moody's analysis, the decline in HFA delinquency rates is driven partly by the overall decline in the unemployment rate, which has dropped nearly 3 percent over the past five years. Moody's also credits HFA and federal loan modification programs, which work to keep borrowers in their homes with reduced monthly payments.

| HFAs' 60-89 and 90+ Days' Delinquencies Decline After 4 Years of Increases |
|-------------------------------------------------|------|------|------|------|------|
| 60-89       | 2.05% | 2.18% | 2.14% | 2.11% | 2.00% |
| 90+         | 3.12% | 3.17% | 2.90% | 2.91% | 2.90% |
| Foreclosures| 2.76% | 2.48% | 2.36% | 2.30% | 1.97% |

Although HFA delinquencies dropped, Moody's found that foreclosure levels for HFA loans have continued to grow. From December 2012 to December 2013, the foreclosure rate for HFA loans increased by 11.1 percent. This rise has been driven by the performance of loans in states that require a judicial role in the foreclosure process. Approximately 40 percent of the loans Moody’s studied are in states with judicial foreclosure oversight. This judicial oversight has caused a substantial backlog in foreclosure proceedings, since the number of courts handling foreclosure cases has not increased during the recent rise in the number of foreclosures. As a result, foreclosures in these states take much longer to complete. Additionally, some states had year-long foreclosure moratoriums imposed by the courts against large banks and other lenders, preventing them from processing foreclosures until the moratoriums were lifted.

State-Imposed Foreclosure Moratoriums are Main Driver in HFA Foreclosure Increases

Despite increasing foreclosures, Moody's found that HFAs have the financial cushion necessary to absorb
losses stemming from foreclosures. Program losses for HFAs are much lower than predicted by previous stress tests and HFAs are even seeing growth in their asset-to-debt ratios and profitability levels. According to the report, many HFAs are recouping almost 100 percent of their loan losses through mortgage insurance and resales.

HFA Asset to Debt Ratios Continue to Rise

HFA Profitability Increases Despite Continued Increases in Foreclosures

Source: Moody's adjusted audited State HFA financial statements; 2013 includes only a subset of programs
Prepared Remarks of Melvin L. Watt, Director, FHFA at the Brookings Institution Forum on the Future of Fannie Mae and Freddie Mac

Managing the Present: The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac

FOR IMMEDIATE RELEASE

5/13/2014

Let me begin my remarks today by talking about the Federal Housing Finance Agency’s (FHFA) work over the last four months. Since January, the agency has continued to carry out its day-to-day responsibilities as the regulator of the Federal Home Loan Banks and as the conservator and regulator of Fannie Mae and Freddie Mac (the Enterprises). Many of these decisions and responsibilities are often considered routine and may go unnoticed. But they are absolutely critical to the effective and efficient operation of the housing finance market. I can’t touch on all of these responsibilities in my remarks today, but I do want to give you a summary of what FHFA has been working on since I arrived and I hope this provides you with insight into the direction we’ll be headed in the future, particularly with reference to Fannie Mae and Freddie Mac.

In addition to overseeing our day-to-day operations, my work has also involved an overall assessment of FHFA as well as Fannie Mae and Freddie Mac. During this time, I’ve witnessed the dedication and expertise of FHFA staff at all levels, as well as the tenacity and dedication of the employees of Fannie Mae and Freddie Mac who continue to stay the course during these most difficult and uncertain times. And I would be remiss not to acknowledge and thank these staffs for their hard work. There’s been a constant urgency since the financial crisis. It has been a marathon, but I’m sure it has felt like a sprint. And everyone has continued to excel at every step along the way.

I also want to publicly thank Ed DeMarco for his lifelong career in public service, including his time as Acting Director of FHFA. In the face of the greatest economic collapse since the Great Depression, FHFA helped prevent an extremely bad situation from getting much worse. It’s hard to imagine things being worse given the depth of the housing market collapse, but I very much believe that FHFA and Ed DeMarco’s leadership prevented an even deeper financial collapse by stabilizing Fannie Mae and Freddie Mac.

Throughout his time at FHFA, Ed was instrumental in establishing the foundation for all that we will do going forward. So, while you may notice from my comments today certain changes in focus, you should know that I firmly believe we will be building on a very solid foundation.
As part of an overall assessment of the agency, we have been very focused on the numerous policy decisions that were and are in the pipeline. In making decisions about the future strategic direction of the Enterprise conservatorships, the principle we are following is how best to fulfill our obligations under current law. This means, first and foremost, that we must ensure that Fannie Mae and Freddie Mac operate in a safe and sound manner. It means that we’ll work to preserve and conserve Fannie Mae and Freddie Mac’s assets. And it means that we’ll work to ensure a liquid and efficient national housing finance market. Our job at FHFA is to balance these obligations, and that’s a message I’ll come back to throughout my remarks.

Another way of stating the principle that will be guiding us is that FHFA is focused on how we manage the present – the present conservatorships of the Enterprises and the present housing finance market under the present statutory mandates.

As a result, one topic that is not on FHFA’s agenda, because it’s not part of our statutory mandate, is housing finance reform legislation. My guess is that there were many people who expected that I would start talking about reform legislation the minute I got to FHFA. I am well aware, and regularly express my belief, that conservatorship should never be viewed as permanent or as a desirable end state and that housing finance reform is necessary. However, Congress and the Administration have the important job of deciding on housing finance reform legislation, not FHFA. Instead, our task is to continue to fulfill our statutory mandates, to execute our Strategic Plan and to manage the present status of Fannie Mae and Freddie Mac.

Today, we are releasing a new Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac along with their 2014 Conservatorship Scorecard. Both documents are built around three strategic goals: MAINTAIN, REDUCE and BUILD. I’d like to walk through each of these goals and discuss how they build upon and, in some cases, reformulate FHFA’s past conservatorship goals.

Strategic Goal 1: MAINTAIN, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.

Our first strategic goal, MAINTAIN, requires Fannie Mae and Freddie Mac to carry out and strengthen, where possible, three aspects of their core business operations. First, we expect them to take actions that improve liquidity in the present single-family housing finance market. Second, we believe they should continue to improve servicing standards and foreclosure prevention actions. Third, we think they have a critical ongoing role in the multifamily sector, particularly for affordable multifamily properties.

Across these three areas, our overriding objective is to ensure that there is broad liquidity in the housing finance market and to do so in a way that is safe and sound.

The MAINTAIN goal is not a new one for the agency, but we are placing an increased emphasis on it. We are leading with MAINTAIN as the first goal in our Strategic Plan and Scorecard. We have also doubled the Scorecard weight given to this goal, from 20 percent to 40 percent.
I want to begin my remarks about single-family liquidity by discussing representation and warranty standards and when these trigger repurchase demands. I know that repurchase risk remains a top concern for the mortgage industry. Lenders believe that too much uncertainty still exists in this area for them to ease their credit overlays. Ultimately, this undermines the goal of improving access to mortgage credit for creditworthy borrowers.

After extensive discussions with Fannie Mae, Freddie Mac and lenders over the past several months, we are making a number of refinements to address some of these concerns. As the Enterprises announced yesterday, they are going to relax the payment history requirement for granting representation and warranty relief by allowing two delinquent payments in the first 36 months after acquisition. Lenders will also get loan level confirmations when mortgages meet this performance benchmark and when they pass a quality control review. The Enterprises will also eliminate automatic repurchases when a loan’s primary mortgage insurance is rescinded.

These refinements build on the agency’s work in 2013 and demonstrate our commitment to making the representation and warranty process work better for everyone. However, we know that more improvements are needed to provide additional clarity. One area we are prioritizing is addressing the scope of life of loan exemptions. We know that lenders are concerned about how these exemptions apply to loans that have passed quality control reviews or have met the 36 month benchmark, and we will work toward clarity on this issue. Over the course of this year, we will also explore the following:

• Establishing an independent dispute resolution program when lenders believe a repurchase is unwarranted;

• Developing cure mechanisms for loan defects rather than relying solely on repurchases; and

• Providing additional clarity on Fannie Mae and Freddie Mac underwriting rules.

There are two other issues I want to comment on that relate to the overall scope of single-family mortgages guaranteed by Fannie Mae and Freddie Mac. The first one involves loans with debt-to-income ratios above 43 percent. Current Fannie Mae and Freddie Mac guidelines make some of these loans eligible for purchase when the borrower has other compensating strengths. FHFA will continue to permit these compensating factors in each company’s underwriting standards. As part of our ongoing safety and soundness obligations, we will, of course, continue to monitor performance data relating to these factors.

The second issue involves loan limits. As market participants are already aware, FHFA released a proposal last year suggesting that the agency would use its conservatorship authority to lower the mortgage amounts eligible for guarantee by Fannie Mae or Freddie Mac. Many groups and individuals submitted feedback in response to the Request for Input, and FHFA has thoroughly reviewed and evaluated those responses. I am announcing today that FHFA will not use its authority as conservator to reduce current loan limits. This decision is motivated by concerns about how such a reduction could adversely impact the health of the current housing finance market.
The next part of our MAINTAIN goal involves continuing to refine and improve servicing and foreclosure prevention standards. Experiences in recent years have revealed serious weaknesses in the servicing industry and in the foreclosure prevention alternatives offered to borrowers. Substantial work has been done to get things right, but there is still room for improvement.

Part of FHFA’s focus in this area is working to stabilize communities hardest hit by the foreclosure crisis. As a result, we are launching a Neighborhood Stabilization Initiative with Fannie Mae, Freddie Mac and the National Community Stabilization Trust. Phase one of this initiative is a pilot program in Detroit, Michigan. We’re pursuing pre-foreclosure and post-foreclosure strategies that include deeper loan modifications and partnering with nonprofits earlier in the REO sales process. FHFA expects to use the experiences in Detroit to expand this initiative to other parts of the country. We believe this will be a win-win for hardest hit communities and for our conservatorship objectives.

We have also received a number of inquiries about changing the eligibility requirements for the Home Affordable Refinance Program (HARP). Because the number of borrowers we could add by extending the eligibility date or by changing performance requirements is relatively small, we have decided not to alter HARP eligibility parameters. FHFA is, however, working to retarget our HARP outreach efforts to the approximately 750,000 borrowers who already qualify and would financially benefit from refinancing. We are exploring outreach efforts designed to gain the trust of these “in-the-money” borrowers so they act in their own financial interest.

FHFA’s MAINTAIN strategic goal also extends to Fannie Mae and Freddie Mac’s multifamily loan purchases. This is a critical part of the 2014 Strategic Plan, particularly in light of the increasing number of households who are renting instead of owning in recent years and the fact that affordability continues to be a significant concern for many households.

Consequently, our 2014 Strategic Plan does not require a reduction in their multifamily production levels and it provides additional capacity for affordable multifamily projects. Consistent with safety and soundness, our affordability focus will include multifamily lending for small properties and manufactured housing rental communities, much of which takes place in rural communities.

We do expect market competition in 2014 to result in lower multifamily levels for the Enterprises, but FHFA will not mandate that the Enterprises prematurely shrink their multifamily footprint.

Strategic Goal 2: REDUCE taxpayer risk through increasing the role of private capital in the mortgage market.

FHFA’s second strategic goal, REDUCE, is focused on ways to bring additional private capital into the system in order to reduce taxpayer risk. We have reformulated this goal so that it no longer involves specific steps to contract the Enterprises’ market presence, which could have an adverse impact on liquidity. Instead, the REDUCE goal focuses on ways to scale back Fannie Mae and Freddie Mac’s overall risk exposure. This approach allows us to meet our mandates of upholding safety and soundness and ensuring broad market liquidity.
While FHFA has reformulated this strategic goal, our strategies to reduce taxpayer risk build on much of FHFA’s past work in this area. This includes having Fannie Mae and Freddie Mac conduct additional credit risk transfers for their single-family credit guarantee business. These transactions have opened up private capital to share in credit losses, which protects taxpayers from bearing all of the potential losses.

Our 2014 Scorecard requires each Enterprise to triple the amount of risk transfers in 2014. This will be an increase from $30 billion of unpaid principal balance transfers last year to approximately $90 billion in 2014. On top of increasing the amount of credit risk transferred, we also expect each Enterprise to try new risk transfer structures to assess sustainability in different market conditions.

In addition, we are requiring ongoing reductions in the Enterprises’ retained portfolios. The Senior Preferred Stock Purchase Agreements with the Treasury Department require the Enterprises to reduce their portfolios to no more than $250 billion each by 2018. Fannie Mae and Freddie Mac must develop plans to meet this target even under adverse market conditions. We are also requiring them to prioritize selling their less liquid assets to reduce risk and take advantage of current investor interest. As their portfolios continue to decline, they are transferring interest rate risk and liquidity risk from these portfolios to the private sector.

On multifamily purchases, we are requiring the companies to continue sharing risk with the private sector, which Freddie Mac does through a capital markets structure and Fannie Mae does through a risk sharing model. Both approaches transfer significant risk to the private market and have had strong performance even through the crisis. We expect these models to continue.

Finally, another risk-reduction priority in 2014 involves private mortgage insurance counterparties. This work will strengthen master policies and eligibility standards for private mortgage insurers. Mortgage insurance is a critical source of private capital in the mortgage finance markets. However, as we all know, the crisis revealed severe weaknesses in this system. FHFA’s objective is to ensure that private mortgage insurer counterparties to Fannie Mae and Freddie Mac are able to provide adequate credit loss protection in times of market stress.

Strategic Goal 3: BUILD a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

FHFA’s final strategic goal is to BUILD a new infrastructure for the Enterprises’ securitization functions. The core of this effort is the Common Securitization Platform and I want to talk about two aspects of this today.

First, after extensive discussion within FHFA and with the Enterprises, we have clarified that the agency’s top objective for the Common Securitization Platform is to make sure that it works for the benefit of Fannie Mae and Freddie Mac. Over the last four months, we have identified the risks involved in transitioning to a Common Securitization Platform and reviewed how to manage those risks. We found that, because of the many variables involved, the main danger to the CSP effort would be pursuing too many objectives all at the same time.
Since any stumbles along the way could have ripple effects in the $10 trillion housing finance market, there’s a lot at stake in getting this right. As a result, our decision has been to “de-risk” this project.

Moving forward, we will focus our efforts on creating a Common Securitization Platform that can undertake Fannie Mae and Freddie Mac’s current securitization operations.

A successful outcome will be a seamless transition from the current in-house systems that issue new securities at each Enterprise to a future joint venture owned by Fannie Mae and Freddie Mac that operates one system with updated technology.

Defining the scope in this way acknowledges that building a CSP for a future housing finance reform system that is not yet defined is extremely risky and could add needless costs. This scope does not mean that our CSP efforts will be at odds with a future system or that our process will take place in a vacuum. To the contrary, we are requiring that the CSP leverage the systems, software and standards used in the private sector wherever possible. This will ensure that the CSP will be adaptable for use by other secondary market actors – including private label securities issuers – when the future state is more defined.

Our second objective for the CSP is to move the Enterprises toward a single common security, which we believe will improve liquidity in the housing finance markets. It would also reduce costs to the Enterprises, particularly Freddie Mac, since Freddie’s securities have historically traded at a disadvantage compared to Fannie Mae. Adding a common single security component to the CSP’s scope will require FHFA and the Enterprises to define the security’s parameters along with shared contractual and disclosure requirements.

FHFA, along with Fannie Mae and Freddie Mac, has made great progress on developing the Common Securitization Platform. But all components of the CSP, including the common single security, will require a multi-year effort before final implementation. Having defined the CSP’s parameters as I have described here, we are well positioned to move forward. Throughout this process, we will provide opportunities for stakeholder input about our decisions along the way.

Conclusion

In releasing FHFA’s 2014 Strategic Plan, my goal today has been to provide a clear sense of direction for the Enterprises’ ongoing conservatorships. Implementing these objectives will require ongoing analysis, evaluation and input. FHFA will proceed with these steps in a transparent way that incorporates the feedback of the public and stakeholder groups whenever possible.

One example of this approach is our upcoming Request for Input on the guarantee fees charged by Fannie Mae and Freddie Mac, which we will release very soon. As many of you know, I issued a directive to the Enterprises that they delay the guarantee fee increase announced in December of last year. In our Request for Input, we will pose a number of questions the agency is considering, and we solicit and encourage your feedback. We’ll review your responses and announce a decision later this year that is consistent with the goals that we have outlined in our Strategic Plan.
Thank you for your time today. I look forward to working with all of you as we implement our Strategic Plan and 2014 Scorecard.
Director Watt: FHFA won't shrink GSE footprint

Affordable mandate, expanded credit boxes

Trey Garrison
May 13, 2014

In his first major public address, FHFA director Mel Watt said that the agency will not be directing Fannie Mae and Freddie Mac to lower limits for the mortgages they back, and the agency will focus more on affordability, loosening credit standards, and expanding access to credit, and less on what direction GSE reform takes.

“This decision is motivated by concerns about how such a reduction could adversely impact the health of the current housing finance market,” Watt said, speaking at the Brookings Institution in Washington on Tuesday.

Watt started by acknowledging that he has been conspicuously absent from the housing discussion despite being sworn in Jan. 6.

He said that the Federal Housing Finance Agency needs to focus on the statutory environment as it stands, rather than trying to influence the direction of GSE reform efforts, even though he agrees some type of GSE reform needs to happen.

Watt said he would rather work on changing the focus of FHFA to affordable housing goals under the current structure.

Among other policy announcements:

- Watt said he was putting an end to the proposal by his acting predecessor to lower the maximum size of loans the GSEs can buy from the current cap of $417,000 in the majority of housing markets.
- The FHFA won’t be expanding eligibility or time limits for the Home Affordable Refinance Program.
- The GSEs will also be directed to expand their credit boxes
- The GSEs will be allowed to extend waivers to lenders that would allow them to avoid the cost of put-backs.

"I don’t think it’s FHFA’s role to contract the footprint of Fannie and Freddie," Watt said.
Watt said the FHFA has three goals: maintain, reduce and build.

“MAINTAIN, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets,” Watt said. “Our first strategic goal, maintain, requires Fannie Mae and Freddie Mac to carry out and strengthen, where possible, three aspects of their core business operations.

“First, we expect them to take actions that improve liquidity in the present single-family housing finance market. Second, we believe they should continue to improve servicing standards and foreclosure prevention actions. Third, we think they have a critical ongoing role in the multifamily sector, particularly for affordable multifamily properties,” Watt said.

Across these three areas, Watt said, the overriding FHFA objective is to ensure that there is broad liquidity in the housing finance market and to do so in a way that is safe and sound.

“The maintain goal is not a new one for the agency, but we are placing an increased emphasis on it. We are leading with maintain as the first goal in our Strategic Plan and Scorecard. We have also doubled the Scorecard weight given to this goal, from 20% to 40%,” he said.

FHFA’s second strategic goal, REDUCE, is focused on ways to bring additional private capital into the system in order to reduce taxpayer risk.

Watt said that the GSEs have been directed to transfer more risk and to reduce their retained portfolios.

“We have reformulated this goal so that it no longer involves specific steps to contract the Enterprises’ market presence, which could have an adverse impact on liquidity. Instead, the reduce goal focuses on ways to scale back Fannie Mae and Freddie Mac’s overall risk exposure,” Watt said. “This approach allows us to meet our mandates of upholding safety and soundness and ensuring broad market liquidity.

“While FHFA has reformulated this strategic goal, our strategies to reduce taxpayer risk build on much of FHFA’s past work in this area. This includes having Fannie Mae and Freddie Mac conduct additional credit risk transfers for their single-family credit guarantee business. These transactions have opened up private capital to share in credit losses, which protects taxpayers from bearing all of the potential losses,” Watt said.

“Our 2014 Scorecard requires each Enterprise to triple the amount of risk transfers in 2014. This will be an increase from $30 billion of unpaid principal balance transfers last year to approximately $90 billion in 2014. On top of increasing the amount of credit risk transferred, we also expect each Enterprise to try new risk transfer structures to assess sustainability in different market conditions,” he said.

“In addition, we are requiring ongoing reductions in the Enterprises’ retained portfolios. The Senior Preferred Stock Purchase Agreements with the Treasury Department require the
Enterprises to reduce their portfolios to no more than $250 billion each by 2018. Fannie Mae and Freddie Mac must develop plans to meet this target even under adverse market conditions. We are also requiring them to prioritize selling their less liquid assets to reduce risk and take advantage of current investor interest. As their portfolios continue to decline, they are transferring interest rate risk and liquidity risk from these portfolios to the private sector.”

FHFA’s final strategic goal is to BUILD a new infrastructure for the Enterprises’ securitization functions.

“The core of this effort is the Common Securitization Platform and I want to talk about two aspects of this today,” Watt said. “First, after extensive discussion within FHFA and with the Enterprises, we have clarified that the agency’s top objective for the Common Securitization Platform is to make sure that it works for the benefit of Fannie Mae and Freddie Mac. Over the last four months, we have identified the risks involved in transitioning to a Common Securitization Platform and reviewed how to manage those risks. We found that, because of the many variables involved, the main danger to the CSP effort would be pursuing too many objectives all at the same time.

“Since any stumbles along the way could have ripple effects in the $10 trillion housing finance market, there’s a lot at stake in getting this right. As a result, our decision has been to “de-risk” this project,” he said. “Moving forward, we will focus our efforts on creating a Common Securitization Platform that can undertake Fannie Mae and Freddie Mac’s current securitization operations.”

Watt concluded saying that he hoped he’d provided a clear sense of direction for the enterprises’ ongoing conservatorships.

“Implementing these objectives will require ongoing analysis, evaluation and input. FHFA will proceed with these steps in a transparent way that incorporates the feedback of the public and stakeholder groups whenever possible,” he said.
Housing finance reform bill set for Thursday markup

By Vicki Needham - 05/12/14 04:29 PM EDT

The Senate Banking Committee will consider a measure on Thursday that would eliminate government-controlled mortgage giants Fannie Mae and Freddie Mac.

The bill, which was delayed two weeks ago in an effort to attract more Democratic support, is expected to pass the committee with a smaller majority than hoped by its backers.

Housing industry leaders last week expressed surprise and frustration that six committee Democrats said they weren't prepared to vote for the long-delayed legislation in its current form.

They said they had hoped Democrats would continue working on making changes, such as ensuring that underserved populations aren't left out and big banks don't control the mortgage market, up until the panel considered the measure.

The latest bipartisan version authored by Senate Banking Committee Chairman Tim Johnson (D-S.D.) and top Republican Mike Crapo (Idaho) is expected to get votes from 12 long-standing supporters of the 22-member panel.

But late last week the group of Democrats — Charles Schumer (N.Y.), Robert Menendez (N.J.), Jack Reed (R.I.), Elizabeth Warren (Mass.), Sherrod Brown (Ohio) and Jeff Merkley (Ore.) — said they couldn’t support the measure.

The major concern is that without a supermajority on the committee, probably around 17 votes, that the bill won’t have enough momentum to pass the Senate and put pressure on the House to act.

Read more: http://thehill.com/policy/finance/205892-housing-finance-reform-bill-set-for-thursday-markup#ixzz31bs4VQ3a

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Scorecard: Housing is trending positively

But we’re not out of the woods yet

Ben LaneMay 9, 2014 5:59PM

The latest edition of the Obama Administration’s housing scorecard shows that there are positive overall trends in the housing market, but notes that the recovery from the “Great Recession” isn’t yet complete.

The housing scorecard, prepared by the U.S. Department of Housing and Urban Development and the U.S. Department of the Treasury, cites stable home prices and shrinking foreclosure rates as positive indicators for the health of the market.

But the scorecard also cautions that the tough winter and limited access to credit are contributing to a weaker market.

“April’s Housing Scorecard shows that the housing market is stabilizing, as home prices have risen nearly 7% from last year, and foreclosure completions are at their lowest level since mid-2007,” said HUD Assistant Secretary for Policy Development and Research Katherine O’Regan.

“However, the harsh winter, fewer distressed properties on the market, and continued tight credit standards have combined to slow the pace of home sales this month, indicating we need to remain vigilant to keep the recovery robust.”

The scorecard notes these four factors are indicators of the health of the housing market:

House prices remain stable

As of February 2014, the Federal Housing Finance Agency purchase-only house price index rose 6.9% from last year and ticked up 0.6% (seasonally adjusted) from January. The FHFA seasonally adjusted purchase-only index for the U.S. shows that home values are on par with prices in mid-2005.

The S&P/Case-Shiller 20-City Home Price Index for February posted returns of 12.9% over the past 12 months and was virtually the same (not seasonally adjusted) from January. Prices, however, are typically weaker at this time of the year. The Case-Shiller index shows that home values are back to their mid-2004 levels.

Foreclosure completions are at their lowest level since mid-2007
A total of 28,840 U.S. properties were repossessed by lenders in March, down 5% from February and down 34% from a year ago—to the lowest level since July 2007. Newly initiated foreclosures, at 55,710 U.S. properties, were up 7% from February but still down 24% from one year ago.

New Home Sales Have Slowed in Recent Months

Purchases of new homes dropped 14.5% to a seasonally adjusted annual rate of 384,000 in March—an eight-month low. New home sales were down 13.3% from a year earlier, the first annual decline since the third quarter of 2011.

The Administration’s foreclosure mitigation programs continue to provide relief for millions of homeowners as the recovery from the housing crisis continues

More than 2 million homeowner assistance actions have taken place through the Making Home Affordable Program, including nearly 1.4 million permanent modifications through the Home Affordable Modification Program, while the Federal Housing Administration has offered nearly 2.3 million loss mitigation and early delinquency interventions through March.

The Administration’s programs continue to encourage improved standards and processes in the industry, with HOPE Now lenders offering families and individuals more than 4 million proprietary modifications through February. In all, more than 8.3 million mortgage modification and other forms of mortgage assistance arrangements were completed between April 2009 and the end of March 2014.

“While the housing market continues to make progress, there are still many homeowners struggling to make their mortgage payments,” said Treasury Acting Assistant Secretary Tim Bowler.

“Treasury remains committed to helping homeowners through our programs under Making Home Affordable. As this report shows, nearly 1.3 million homeowners have received a permanent modification through the Home Affordable Modification Program and the program has saved homeowners an estimated $26.8 billion to date in monthly mortgage payments.”

The scorecard notes that despite the seemingly encouraging news, “there is a need to continue with recovery efforts as home sales have slowed, too many homeowners remain underwater, and mortgage delinquencies rates remain elevated.”

The scorecard also notes that there is considerable geographic variation in market conditions not captured in the national statistics, which suggests that some markets are improving at different rates than others.

“Given the current state of the market and recognizing that recovery will take place over time, the Administration remains committed to its efforts to prevent avoidable foreclosures and stabilize the housing market,” the scorecard states.
Goldman Sachs answers 3 key questions about housing

The outlook isn't that bad

May 6, 2014 Jacob

Goldman Sachs (GS) analyst Hui Shan notes that many sectors of the economy are improving.

However, over the last few weeks housing isn't one of them.

An improvement in housing is expected from April and May — the so-called spring buying season — but there are still some weaknesses being caused by higher mortgage rates and tighter lending standards.

"As a downside scenario, we estimate that a failure of housing activity to recover in the remainder of 2014 would shave about 0.5 percentage points from real GDP growth in the second half of 2014," Shan writes in the Goldman Sachs Global Macro Research note from this morning.

"This is significant but would still leave growth near an average of 3% for the remainder of the year," he adds, which would be an improvement over the first quarter near-negative GDP report.

Shan said there are 3 key questions facing housing.

And then, he answered them.

Here is a summary of that Q&A from Hui Shan of Goldman Sachs.

The edits are mine, but most of the words belong to Shan:

1. What happened to housing in the first quarter?

First, the past winter was unusually cold and many regions of the country endured seemingly never-ending snowstorms.

Second, mortgage interest rates are 100 basis points (1%) higher than a year ago.

Third, mortgage-lending standards remain tight.

"The Ability-to-Repay and Qualified Mortgage rules issued by the Consumer Finance Protection Bureau took effect on January 10, 2014. Lastly, changes put in place at the beginning of this year--including the
FHA single-family loan limit reduction and the expiration of the Mortgage Debt Relief Act of 2007--may have negatively affected home sales in certain parts of the country," Shan notes.

Bright spots include homebuilders reporting solid results in their Q1 earnings. Also a new increase in pending home sales and rising construction employment are notable improvements, Shan states.

2. Where do we stand at this point?

Here Shan looks closer at the three potential negative-housing drivers mentioned in the first answered question — weather, interest rates and lending standards.

Weather: The negative effect of unusually cold weather on permits is largest in the concurrent month, but there tends to be a positive payback effect two months later.

"In addition, the weather effect is arguably smaller on permits than on other housing activity indicators such as starts and sales," Shan states. "Nevertheless, our finding suggests that normalizing weather should provide a boost to permits issuance in April and housing starts in May."

Interest rates: "As we head into Q2 and Q3, the effect from the May-August interest rate selloff last year should finally be behind us. On lending standards, we have argued that credit availability is the key to the ongoing housing recovery."

Shan also takes issues with reports claiming lending standards are getting looser.

"Statistics showing much larger declines in credit scores are often distorted by composition effects and do not reflect a true loosening in lending standards," he said echoing a recent Urban Institute report.

"For example, as the share of FHA loans has increased relative to GSE loans, the average credit score has declined because FHA borrowers tend to have lower credit scores than GSE borrowers," Shan states.

3. What would a downside-housing scenario imply for GDP growth?

Well, it doesn't look good, according to Shan, who expects a further drag on GDP from housing. But even in his most pessimistic scenario, the total economic impact is not a recovery killer.

Assuming the negative estimation that housing starts would stay at 0.9 million and existing home sales would remain at 4.6 million by the end of this year, housing would contribute 0.5 percentage points less to real GDP growth in the second half of the year.

"In other words, instead of the 3.5% annualized growth rate we currently forecast, real GDP would grow 3.0% in Q3 and Q4, assuming the broader economy continues to recover despite the significant weakness in the housing market," Shan concludes.
Senate panel to vote on housing finance bill next week, aide says

Tue, May 6 2014

WASHINGTON (Reuters) - The Senate Banking Committee will vote on a bill to revamp the U.S. housing finance system next week, a Senate aide said on Tuesday.

Committee Chairman Tim Johnson, a Democrat, and Senator Mike Crapo, the panel's top Republican, had previously delayed scheduling votes on the bill in order to build more support for the plan that would wind down taxpayer-owned mortgage financiers Fannie Mae and Freddie Mac.

Six Democrats and six Republicans on the 22-member committee are prepared to back the bill, but the leaders want a broader base to pressure Senate Majority Leader Harry Reid to let the legislation come up on the Senate floor.