Resolution No. __5

Date: 1/21/2016
City: Las Vegas, NV

NAHB Resolution

Title:	Comprehensive Framework for Housing Finance System Reform
Sponsor:	Housing Finance Committee
Submitted by:	Michael Fink

WHEREAS, the Housing Act of 1949 established a national over-arching policy of a decent home and suitable living environment for every American family.

WHEREAS, a healthy housing market is a cornerstone of a durable and strong U.S. economy and a vibrant, and reliable housing finance system is essential to fulfilling the mandate of the Housing Act of 1949.

WHEREAS, Americans from all socio-economic and income strata recently have overwhelmingly reaffirmed their preference to own their homes.

WHEREAS, the nation's housing markets are beginning to recover after nearly a decade of suffering from the severe upheaval in world financial markets and the subsequent Great Recession.

WHEREAS, the housing industry is universally recognized to generate substantial jobs, tax revenue and positive ripple effects across a wide spectrum of the economy.

WHEREAS, while some steps have been taken to address weaknesses in the framework for mortgage and broader financial transactions, no meaningful progress has occurred in implementing comprehensive reforms to the housing finance system to ensure that housing credit is available and affordable in the future and is delivered through a competitive, efficient, sound, safe and stable system.

WHEREAS, an efficient and reliable secondary market is essential to attracting the capital required to provide financial institutions the liquid flow of funds to finance home purchases and rental housing in recovering housing markets.

WHEREAS, the federal government took extraordinary measures to restart frozen financial markets and to keep mortgage credit flowing at historically low rates of interest, but at the same time, tighter underwriting standards have made credit hard to obtain for potential mortgage borrowers.

WHEREAS, the federal government, through the Federal Housing Administration (FHA) and Fannie Mae/Freddie Mac, continues to account for the majority of mortgage credit flowing to home buyers and rental properties.

WHEREAS, historically, federal and state government agencies have been an important support for housing credit and continue to play a vital role in meeting affordable housing needs in America today.

WHEREAS, with the private market still not providing adequate financing, these agencies have stepped up to fill the gap.

WHEREAS, the Federal Home Loan Banks (FHLBanks) serve eleven regions of the country, working with member institutions in their districts to provide mortgage and housing production credit, support for community and economic development, and resources to address affordable housing needs.

WHEREAS, most Federal Home Loan Banks have operated or participated in mortgage purchase programs where the FHLBanks buy mortgages from member institutions to hold in portfolio and the FHLBanks have been cautiously expanding their role in the housing finance system through pilot programs developed to help their members sell mortgage loans in the secondary mortgage market.

WHEREAS, in 2008, Fannie Mae and Freddie Mac were placed in conservatorship and given significant funds from Treasury to remain solvent, provide mortgage liquidity and continue to meet their obligations to investors.

WHEREAS, Fannie Mae and Freddie Mac continue to operate under conservatorship with explicit support from Treasury, an arrangement that greatly limits their ability to respond to market developments and needs, and continues an undesirable risk to the federal budget.

WHEREAS, the terms of their conservatorship, as spelled out in Preferred Stock Purchase Agreements (PSPAs), require Fannie Mae and Freddie Mac to return all but a minimal amount of their profits to Treasury on a quarterly basis, effectively prohibiting them from building capital reserves.

WHEREAS, Fannie Mae and Freddie Mac have returned more funds to Treasury than they borrowed from Treasury under the terms of their PSPAs.

WHEREAS, while Fannie Mae and Freddie Mac once experienced adverse results in their single family operations, today, both the single family and their multifamily businesses are performing extremely well, with very low default rates.

WHEREAS, Fannie Mae and Freddie Mac have returned to profitability on an annual basis.

WHEREAS, the underwriting standards employed by Fannie Mae and Freddie Mac have been shown to be safe and sound and the multifamily mortgages they have guaranteed have performed significantly better than loans originated for sale through private mortgage-backed securities.

WHEREAS, the uncertainty of today's housing finance system is not desirable and cannot continue indefinitely.

WHEREAS, the 30-year fixed-rate mortgage is a hallmark of the U.S. housing finance system and has conveyed affordability, inflation protection, long-term financial stability, security for homeowners, and tax advantages for millions of American families.

WHEREAS, mortgage-backed securities are an essential component of the housing finance system for both single family and multifamily housing and Fannie Mae and Freddie Mac continued to issue mortgage-backed securities when the market for private label mortgage-backed securities dried up, demonstrating a stable and reliable conventional secondary mortgage market should be multifaceted including mortgage-backed securities with a federal government backstop and a fully private mortgage-backed securities market.

WHEREAS, numerous and sizable gaps in statutory and regulatory standards and oversight allowed and facilitated imprudent and unsound activities, including excessive risk taking without accountability, in financial and mortgage markets, which were the dominant cause of the financial system near collapse.

NOW, THEREFORE, BE IT RESOLVED that National Association of Home Builders (NAHB) urge Congress and the Executive Branch to reaffirm support for housing as a national priority in fulfillment of the mandate of the Housing Act of 1949, which pledged a "decent home and suitable living environment for every American family."

BE IT FURTHER RESOLVED that the best way to achieve the goals of the Housing Act of 1949 is through a multifaceted housing finance system with both competing and complementary components, including private, federal, state and regional sources of capital liquidity. The system should support a reasonable menu of sound mortgage products for both single family and multifamily housing, governed by prudent underwriting standards and adequate oversight and regulation.

BE IT FURTHER RESOLVED that NAHB support the following comprehensive framework for housing finance system reform:

1. <u>Maintain a robust housing finance system through the creation of a new securitization system for conventional mortgages backed by private capital and a privately funded mortgage-backed securities insurance fund with a federal government backstop in the event of catastrophic circumstances.</u>

- Mortgage-backed securities are an essential component of the housing finance system for both single family and multifamily housing and a stable and reliable conventional secondary mortgage market requires a federal government backstop.
- A federal backstop is needed to ensure that 30-year fixed-rate mortgages are available at reasonable interest rates and terms.
- Federal support to the conventional mortgage market of the future should be limited to catastrophic situations where carefully calibrated levels of private capital and a privately funded insurance fund are depleted before any taxpayer funds are employed to shore up the mortgage market, in the following framework:
  - Private Housing Finance Entities (HFEs) would be authorized to purchase conventional single family and multifamily mortgages from loan originators and would assume the function of aggregating and packaging the loans into securities having a federal backstop.
  - HFEs could take on a range of forms:
    - One possibility would be to bring Fannie Mae and Freddie Mac (the Enterprises) out of conservatorship and restructure them as HFEs; as such they would be subject to the same rules (including safety and soundness and capital requirements) as all HFEs and their securities would be provided the protection and opportunities of the federal catastrophic backstop. Most important, the Enterprises' infrastructure should be utilized regardless of the ultimate fate of Fannie Mae or Freddie Mac.
    - To the extent that the Federal Home Loan Bank System could adapt to the HFE system and desires to do so, one or more of the Federal Home Loan Banks (FHLBanks) could be restructured as HFEs, subject to the same requirements and protections of all HFEs. FHLBanks also could choose to expand their mortgage programs by aggregating loans for sale to HFEs.
  - Mortgage originators and HFEs would be required to maintain minimum capital to cover a portion of the credit risk on the pooled mortgages, with private mortgage insurance required in addition on higher loan-to-value mortgages.
  - A government-backed insurance fund (IF) capitalized with fees from the HFEs and originators (similar to the FDIC insurance fund to secure savings deposits) would provide an explicit government full faith and credit guarantee on the timely payment of principal and interest on the securities, not the underlying mortgages.
  - The federal government would stand behind the insurance fund to ensure that the fund was actuarially sound, similar to the successful Government National Mortgage Association (Ginnie Mae) model.

  - The federal government would backstop the IF and would only expend funds to continue payments to MBS investors in a catastrophic event where private market participants (originators and HFEs) have reached their pre-determined level of loss and the insurance fund is depleted.
  - HFEs would be permitted to deal only in mortgages with well understood and reasonable risk characteristics.
    - Single family mortgage products could be required to meet the Consumer Financial Protection Bureau's Ability to Repay and Qualified Mortgage rules, generally this would include standard 30-year fixed-rate loans and adjustable rate mortgages (ARMs), and also have the flexibility to consider other products that may be beneficial to consumers, including shorter maturities, but only if these products have safe and sound loan terms and fully documented and soundly underwritten credit criteria.
    - Fannie Mae's and Freddie Mac's multifamily platform, including mortgage loan products and underwriting standards, should be retained and transferred to a new HFE framework.
- The HFE conventional mortgage securitization system should operate under the oversight of a strong independent regulatory agency to ensure all aspects of safety and soundness.
  - The regulatory agency would oversee the federal conventional MBS insurance fund and ensure the actuarial soundness of the fund, which would provide investors an explicit federal government guarantee of timely payment of principal and interest on HFE-issued MBS.
  - The regulatory agency would establish approval standards for originators, servicers and HFEs as well as underwriting standards, capitalization levels, loss coverage requirements and guarantee fees.
  - The regulatory agency also would establish a single platform for the issuing, trading and tracking of MBS. The single securitization platform would serve as the securitization framework for HFE-issued MBS and eventually support multiple issuers, including issuers of private label MBS.
  - The regulatory agency should be governed by a board with a structure modeled on that of the FDIC, where members would be required to have extensive experience in and/or knowledge of housing capital market transactions and issues and housing finance needs.
    - An Advisory Committee would also be established to advise the Board on broad market conditions. One member of the Advisory Committee would be required to be a representative of the home building industry.
- The transition to the new conventional mortgage market should be Congressionally-mandated, carefully planned and executed.
  - Changes to the housing finance system should be undertaken with extreme care and with sufficient time to ensure that U.S. home buyers and renters are not placed in harm's way and that the mortgage funding and delivery system operates efficiently and effectively as the old system is abandoned and a new system is put in place.

  - The impact of the transition on the mortgage and housing markets should be of paramount concern. Every effort should be made to reassure borrowers and financial markets that credit will continue to flow to creditworthy borrowers and that mortgage investors will not experience adverse consequences as a result of changes in process.
  - The old system should not be abandoned before the new system is fully functioning.

2. Restart a carefully regulated, fully private mortgage-backed securities system.

- Restore investor confidence in the private label mortgage-backed securities (PLS) market.
  - Increase transparency and disclosure around the collateral and structure of PLS.
  - Ensure all participants operate under adequate regulation and have a stake in the performance of the mortgages that are originated and sold.
  - Reform the credit ratings process to address conflicts of interest.
  - Provide investors assurance that their interests and rights are protected by a third party with specific accountability for acting in their best interests.

3. Continue the roles of the federal government housing agencies.

- The housing finance support roles of the Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Department of Agriculture (USDA) and the Government National Mortgage Association (Ginnie Mae) should be preserved.
- Affirm existing NAHB policy that encourages steps be taken to make the operations of these agencies more efficient and effective.

4. Enhance the role of state and local housing finance agencies (HFAs) as a source of housing funds.

- HFAs should play a more prominent housing finance role through the development of new programs for new, for-sale housing and multifamily rental housing and should look for opportunities to partner with federal and private providers of housing capital.
- Efforts to address problems in the tax-exempt mortgage revenue bond market and to facilitate new HFA financing products should be encouraged.

5. Support options for the Federal Home Loan Banks (FHLBanks) to expand their role in the housing finance system.

- The FHLBanks should continue their current activities to serve as an ongoing key source of liquidity for institutions providing housing credit.
- Existing programs, such as the FHLBanks' mortgage purchase programs should be enhanced by allowing the FHLBanks to have greater options for managing their balance sheets, consistent with safety and soundness. The FHLBanks should be authorized to engage in additional activities, including purchase of multifamily mortgages, and services to support a full range of housing-related lending by their members.

6. <u>Correct other flaws in the mortgage market that contributed to the causes of the Great Recession.</u>

- It is extremely important to continue and complete steps to close the gaps in standards and oversight that allowed and facilitated the improper and illegal activities in financial and mortgage markets. This should be done by:
- Ensuring the availability of sound mortgage products.
  - There should be continued availability of financing for long-term (at least 30-year) fixed-rate mortgages, as well as mortgage products with well understood risk characteristics such as certain standard adjustable-rate mortgages and multifamily products.
  - Mortgage maturities should also be available for longer than 30 years.
- Ensuring the use of prudent mortgage underwriting guidelines.
  - There should not be overly rigid adherence to loan-to-value limits that results in inappropriate rejections of creditworthy borrowers.
  - Underwriting standards and decisions should be based on documented borrower credit and repayment capacity rather than expectations of rising collateral value.
  - Policy makers should examine whether there is too much reliance on credit scores, such as FICO scores, to determine a borrower's likelihood of default, and whether the use of alternative credit data could offer lending opportunities to borrowers currently lacking access due to a low, inaccurate or unavailable FICO credit score.
  - The negative consequences of today's tight lending conditions (due to credit overlays and buyback risk) must be addressed.
  - There should be recognition that multifamily rental properties have different risk profiles than other commercial properties and thus should not be subjected to inappropriate underwriting and credit standard decisions.
- Requiring sound mortgage securities structures and full transparency for investors.
  - The process for mortgage securitization must be more transparent, providing adequate collateral and risk information for investors and regulators.
  - Mortgage originators, lenders and investors should have appropriate accountability and liability for the instruments in which they are involved.

    - Accounting rules for institutions that originate or hold mortgage-related assets should facilitate transparent and informative financial statements that accurately measure their performance and condition as ongoing enterprises.
- Ensuring that reforms are undertaken in a balanced and flexible manner so creditworthy borrowers are not disadvantaged.
    - Short-term resolutions of mortgage and housing production credit issues should consider direct and indirect long-term consequences before implementation.

Board of Directors Action:	Approved
Executive Board Action:	Recommends Approval
Resolutions Committee Action:	Recommends Approval
Housing Finance Committee Action:	Recommends Approval
Federal Government Affairs Committee Action:	Recommends Approval
Multifamily Council Board of Trustees Action:	Recommends Approval

If approved, this resolution will update and replace existing policy: 2012.2 No. 5 Comprehensive Framework for Housing Finance System Reform