NATIONAL HOUSING CONFERENCE

NHC POLICY STATEMENT
THE U.S. HOUSING FINANCE SYSTEM

September 2009

The mortgage market in America is broken. Foreclosures are soaring to historic highs. Mortgage-related losses have triggered a worldwide financial crisis and recession. Private Label Securities markets and Commercial Mortgage-Backed Securities markets have essentially disappeared. Fannie Mae and Freddie Mac are in conservatorship. Private lenders and mortgage insurance companies have tightened credit standards. Through Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA), the federal government is the principal source of funding and liquidity for new mortgages.

For more than 75 years, the nonprofit National Housing Conference (NHC) has been the "United Voice for Housing." A membership drawn from every industry segment forms the foundation for NHC's broad, nonpartisan advocacy for national policies and legislation that promote suitable housing in a safe, decent environment. Building upon its history and diverse membership, NHC, with input from its members and industry partners, offers the following principles as the U.S. Congress and the Administration consider the future of the housing finance system and the federal government's role in that system:*

1. **The nation should reaffirm its commitment from the 1949 Housing Act to the goal of a "decent home in a suitable living environment for all Americans".** The components of a well-functioning economy – educational opportunities, good jobs, and a civil society – begin with a healthy, affordable home in a safe neighborhood.

2. **In order to achieve the goal of a decent, affordable home for all Americans, the federal government needs to begin now to develop policy to maintain its key role in the housing finance system after the current crisis has abated.** The federal government role should ensure that the system provides for the liquidity, stability, accessibility, standardization, and affordability of housing finance, serving all the population, across the entire country, in varying economic conditions. Absent a federal role in the housing finance system, we believe that the private sector alone would be unable to make long-term, fixed-rate financing for single-family and multifamily affordable housing readily available in all markets at all times and on reasonable terms.

3. **In order to ensure a successful housing finance infrastructure, the rules and regulations governing the primary and secondary mortgage markets should ensure adequate consumer disclosures and protections, and provide effective consumer-based pre-purchase and post-purchase counseling.** It is important that the system include incentives for sound underwriting and impose strong, enforceable limits on abusive lending practices and inappropriate mortgage terms. The system should also include appropriate retention of risk by all the participants in mortgage originations and mortgage securitization functions as part of the incentive structure. And, participants should have an affirmative obligation to serve all households and communities, including those with low- and moderate-incomes.

4. **Federal housing policy should balance its support for both homeownership and rental housing options.** Homeownership is an important and fundamental American aspiration, but housing policy should also recognize the critical role that rental housing plays in the lives of many families in communities, as well as in the economy as a whole. Rental housing provides a home for one third of the U.S. households who are unable to purchase a home or who choose not to purchase a home. It is particularly important that the housing finance system include a strong infrastructure to support rental housing finance, in general, and make available debt and equity on affordable rental housing serving low-income people, specifically.

5. **The federal government should continue to support key programs that ensure access to credit for owner-occupied and renter-occupied housing.** FHA, the Department of Veterans Affairs' mortgage guarantee program, the Rural Housing Service, and the Government National Mortgage Association have successfully supported the provision of low-downpayment, long-term, fixed-rate, self-amortizing mortgages for first-time homebuyers and access to multifamily finance for affordable and mixed-income housing for many decades. These institutions and programs must be strengthened in order to assume and manage the risks backed by the full faith and credit of the U.S. Government.

6. **The federal government should continue to participate actively in the secondary market for mortgage credit.** The nature of the government's relationship to the secondary market is critical. Ensuring sufficient capital for new housing to address the needs of population growth and household formation and inventory demolition is crucial. The Government Sponsored Enterprises (supporting mortgage credit) – Fannie Mae, Freddie Mac, and the Federal Home Loan Banks – have been important and successful mainstays of the U.S. housing finance system since the late 1930's. The federal government should ensure the provision of liquidity and stability to the markets for residential credit through securitization, other types of credit that rely on mortgages as collateral, and mortgage investment activities. The ability to provide liquidity and stability when there are disruptions in national or international capital markets, or when there is a downturn in the economic and/or credit cycle, is important to the efficiency and function of the housing sector. Policy makers should consider emergency lines of credit, access to the Federal Reserve facilities, and/or some form of government-backed insurance to enhance the acceptance of mortgage-backed securities by investors. And, secondary market activities should be organized to provide dependable revenue streams that create subsidies to support housing for very low-income and extremely low-income households.

7. **NHC supports a market driven environment where competition provides an incentive to lower prices, increased productivity, innovation, and improved customer service.** Future secondary market models should attract private capital and rely on the benefits of a competitive market.

8. **The secondary market should provide access to the capital markets for all forms of housing-based lending – from acquisition and development loans to lending to increase the supply of housing, to loans supporting homeownership and rental housing opportunities, to loans secured by existing single-family and multifamily properties.** Secondary market institutions have an affirmative responsibility to support low- and moderate-income households and communities, and the full complement of housing-based lenders. The rules governing the secondary market should also require participants to serve the diverse array of mortgage lenders including housing finance agencies, community development financial institutions, and other not-for-profit lenders, as well as traditional mortgage lenders and insured depositories. Policymakers

should ensure that secondary market requirements that serve low-income families and communities are aligned with the business and data requirements placed on primary market lenders through laws such as the Community Reinvestment Act, the Home Mortgage Disclosure Act, and anti-predatory lending statutes – and any similar successor statutes.

9. **Securitization is an essential tool for the distribution of credit risk and interest rate risk and for linking primary mortgage markets with capital markets.** The recent financial crisis has demonstrated the need to regulate the secondary market and securitization markets more fully, but in ways that allow these markets to function efficiently. The federal government should articulate the standards for these markets to ensure safety and soundness and provide sellers and investors with certain protections. The rules should apply across all participants in the market to avoid regulatory arbitrage. Protections for consumers could include prohibitions on the securitization of certain types of products or loans with certain features. Originators of affordable housing products – both for homeowners and renters – should have adequate access to the securitization markets – as well as an ongoing responsibility for the products they produced. At the same time, policy makers should strike a balance between regulation and market incentives that achieve the desired outcomes.

10. **The standards and regulations governing financial services should support the flow of capital to meet the nation's housing needs.** International and national capital standards and regulation will affect the availability of capital for mortgage finance. The country will need to marshal trillions of dollars in capital each year for single-family and multifamily mortgage originations to accommodate the housing finance needs of a mobile and growing population.

**The following NHC members and industry partners participated in a working group to guide the drafting of these principles:*

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