National Association of Home Builders

1201 15th Street NW
Washington, DC 20005

T 800 368 5242
F 202 266 8400

www.nahb.org

Housing Finance & Regulatory Affairs

David L. Ledford
Senior Vice President

September 15, 2014

Federal Housing Finance Agency
Office of Budget and Financial Management
400 7th Street, SW
Ninth Floor
Washington, DC 20024

Re: FHFA Strategic Plan: Fiscal Years 2015-2019

Submitted via Electronic Delivery: www.fhfa.gov

Dear Sir or Madam:

NAHB appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Strategic Plan for Fiscal Years 2015-2019 (Strategic Plan). This plan updates FHFA's strategic plan for fiscal years 2013-2017. Though FHFA is bound by a series of statutes to supervise, regulate, and oversee the housing mission of Fannie Mae and Freddie Mac (the "Enterprises") and the Federal Home Loan Bank System (FHLBank System), it has significant discretion in determining the broad strategies that will ensure these entities fulfill their mission to provide liquidity and funding to the U.S. housing finance system.

NAHB is a Washington-based trade association representing more than 140,000 members involved in all aspects of single family and multifamily residential construction. The ability of the home building industry to meet the demand for housing, including addressing affordable housing needs, and contribute significantly to the nation's economic growth is dependent on an efficiently operating housing finance system that offers home buyers and producers of rental housing access to affordable mortgage financing at reasonable interest rates through all business conditions.

Background

In its dual role as regulator and conservator of the Enterprises and as regulator of the FHLBank System, FHFA's regulatory authority is mandated in the Federal Housing Enterprises Financial Safety and Soundness Act as amended by the Housing and Economic Recovery Act (HERA) of 2008 and the Emergency Economic Stabilization Act (EESA) of 2008. Until such time as Congress revises these statutes and/or the charter missions of the Enterprises and the FHLBanks, FHFA's mandates are clear. Chief among its directives to oversee the Enterprises and the FHLBank System, FHFA is to ensure that "the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities)".

As conservator of the Enterprises, FHFA may take such actions as may be "necessary to put the regulated entity in a sound and solvent condition"; and "appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity". Finally, in its capacity as conservator of the Enterprises, FHFA has the statutory responsibility to seek solutions to minimize foreclosures.

Six years after being placed in conservatorship, the future of the Enterprises is unclear. Numerous proposals for a reformed housing finance system, without the Enterprises, have been put forward by industry organizations, housing advocates, and members of Congress. The Obama Administration also has spent significant time and resources considering the design and development of a new housing finance system and how an orderly transition from the current Enterprise-dependent system might take place. However, to-date, efforts have been fruitless and are now seemingly stalled.

NAHB believes the current state of the housing finance industry in which the Enterprises remain in conservatorship, yet continue to dominate the mortgage market, is neither sustainable nor in the best interests of the industry, home buyers and taxpayers. In the second quarter of 2014, the Enterprises accounted for 66 percent of all new mortgage-backed securities (MBS) issued. In conservatorship, Fannie Mae and Freddie Mac MBS are assumed to have a government backstop, just as Ginnie Mae MBS always have had. Consequently, today the U.S. mortgage market is almost entirely guaranteed by the federal government. NAHB believes this is an untenable situation and puts taxpayers at considerable risk. NAHB believes a housing finance market designed to attract and support a substantial level of private capital is the optimal solution for home buyers, lenders, investors and taxpayers.

Within the confines of conservatorship, the Enterprises appear to operate efficiently and have been extremely profitable for more than two years. This has caused some to call for the Enterprises to be allowed to exit from conservatorship, recapitalize and resume doing business under their pre-crises model. NAHB does not consider this to be a viable option. We believe Congress should pass comprehensive housing finance system reform legislation that includes an orderly transition from Fannie Mae and Freddie Mac to a new mortgage securitization system for conventional mortgage loans. However, in the absence of Congressional action and while they remain in conservatorship, the Enterprises still are a critical and vital component of the housing finance system.

NAHB supports FHFA's plan to manage the Enterprises in their current state and continue to set strategic goals, performance goals, and strategies to keep them safe and sound and able to provide liquidity, stability and access in the housing market. The three Strategic Goals outlined by FHFA in the updated Strategic Plan are consistent with FHFA's duties and responsibilities as regulator and conservator of the Enterprises and regulator of the FHLBank System. The proposed means and strategies to accomplish the identified performance goals will allow the Enterprises to operate successfully in their current state and fulfill their charter mission while requiring them to take actions that would support a future housing finance system which may or may not include the Enterprises in some form.

NAHB Comments on FHFA's Strategic Goals:

Strategic Goal 1: Ensure Safe and Sound Regulated Entities

Ensuring the safety and soundness of the Enterprises and the FHLBank System involves assessing, identifying, monitoring and supervising the risk management practices of the regulated entities, plus evaluating plans and subsequent actions taken to remediate any identified weaknesses in risk management practices. NAHB believes the Strategic Plan incorporates a comprehensive approach to accomplishing Strategic Goal 1.

Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance

FHFA pledges to ensure liquidity, stability, and access in housing finance through mitigating losses to taxpayers; monitoring access to mortgage credit by single family and multifamily borrowers and using reported information to establish public policy as necessary; supporting multifamily housing needs with a particular focus on affordable and underserved segments of the market; collaborating with other federal regulators to identify and address industry issues; ensuring the FHLBank System can continue to provide advances in a safe and sound manner, promote fair and equal membership opportunities, and support access to advances for all eligible institutions; ensuring the Enterprises address barriers to access for small lenders, lenders serving rural areas, and state and local Housing Finance Agencies (HFAs); developing and promoting home retention and loss mitigation programs; promoting minority and women inclusion in the activities of FHFA , the Enterprises, and the FHLBank System; issuing regulations as needed to define the Enterprises' and the FHLBank System's housing goals and the Duty to Serve standards for the Enterprises; and monitoring and examining the Affordable Housing Program and the Community Investment Program at the Federal Home Loan Banks.

NAHB has expressed support for each of these objectives.

NAHB is particularly pleased FHFA has identified the action items below as priorities within this Strategic Goal:

- FHFA will expect the Enterprises to maintain a multifamily liquidity presence in all geographic areas and through all market cycles with a focus on the affordable segment of the market. NAHB does not wish to see the multifamily businesses disrupted or dismantled prior to a new system being put into place. The multifamily businesses have operated efficiently and are profitable; risk-sharing is an integral part of the businesses; and the underwriting practices are proven and have become industry standard over time.

- To encourage purchases in certain underserved market segments, such as low-income households, FHFA will not count certain mission-related activities such as affordable rental housing, buildings with less than 50 units, and manufactured rental housing communities toward the production cap on the Enterprises' multifamily business;

- FHFA will ensure the Enterprises address barriers to access for small lenders, lenders serving rural areas, and state and local Housing Finance Agencies. This is an important objective to NAHB because of the difficulty of obtaining financing for small multifamily properties, particularly in rural areas, and because state HFAs allocate Low Income Housing Tax Credits and other housing funds critical to the development and preservation of affordable rental housing;

- FHFA will issue regulations as needed to define the Enterprises' and the FHLBank System's housing goals and the Duty to Serve standards for the Enterprises and monitor and examine the Affordable Housing Program and the Community Investment Program at the Federal Home Loan Banks. This objective will provide an important incentive for the Enterprises and the FHLBanks to continue to focus on these areas;

- FHFA will work with other federal agencies to coordinate supervision efforts and inter-agency rulemakings, and look for opportunities to streamline regulatory activities;

- FHFA will build upon the Servicing Alignment Initiative to develop consistent standards for the Enterprises for resolving delinquencies, including long-term loss mitigation standards after the conclusion of the Home Affordable Modification Program;

- FHFA will work with the Enterprises, lenders and other stakeholders regarding origination and servicing obligations to increase lenders' willingness to provide more credit within the Enterprises' underwriting standards. This includes FHFA's initiative to clarify the Enterprises' representation and warranty (reps and warrants) framework to provide lenders more certainty regarding origination and servicing obligations and conditions that will trigger repurchase requests.

<u>Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships</u>

Managing the Enterprises throughout their ongoing conservatorships presents unique challenges, but does not lessen the importance of ensuring the Enterprises' infrastructure continues to meet the needs of their current business operations and multifamily and single family credit guarantee business. Certain activities must align with the requirements of the Senior Preferred Stock Purchase Agreements (PSPAs). Most operations decisions will be impacted to some degree by the requirement per the PSPAs that the Enterprises send most of their profits to the U.S. Department of the Treasury (Treasury). The performance goals outlined in Strategic Goal 3 are consistent with FHFA's *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* and the *2014 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions*.

NAHB believes FHFA's means and strategies to achieve Strategic Goal 3 are appropriate responsibilities for the Enterprises in their current state. The planned actions begin to reform and strengthen core components of the housing finance system to encourage a return of private capital, increase the liquidity of MBS issued by the Enterprises, and decrease credit risk for the Enterprises and ultimately, the taxpayer. The actions FHFA has outlined are those the agency can take under its current statutory responsibilities while Congress continues to consider the framework of the future housing finance system

Specifically, NAHB believes the following initiatives and activities support reforms that can help the Enterprises contribute to a more robust housing market recovery:

Promote credit risk transfers for the single-family and multifamily guarantee businesses to reduce taxpayer risk by attracting private capital.

FHFA's requirement for the Enterprises to reduce their credit risk by developing risk-sharing programs accomplishes the dual goals of reducing credit risk to the Enterprises

and, ultimately, the taxpayers and increasing private capital's role in the mortgage market. NAHB supports both goals.

Reduce counterparty risk by strengthening master insurance policies and setting appropriate eligibility standards for private mortgage insurers.

NAHB submitted comments in response to FHFA's Request for Input on the draft Private Mortgage Insurers Eligibility Requirements. In our comments, we expressed agreement with the importance of mitigating counterparty risk incurred by the Enterprises through mortgage insurers. However, we cautioned FHFA against requiring mortgage insurers to hold excessive capital, which would spur mortgage insurers to compensate by increasing the insurance premium fees they would charge home buyers.

Support development of a common securitization platform.

FHFA's plan to develop a common securitization platform (CSP) to replace the individual securitization platform at each Enterprise makes sense as a cost-saving initiative as well as a method to support future industry securitization needs such as a single Enterprise security structure and integration into the CSP by additional market participants. Similarly, in NAHB's 2012 white paper, *Framework for Comprehensive Housing Finance System Reform*, NAHB calls for a new securitization system for conventional mortgages backed by private capital and a privately funded insurance fund to take losses ahead of the federal government.

As NAHB urged in its comments to FHFA in 2012 regarding its proposed framework for a new securitization system, *Building a New Infrastructure for the Secondary Mortgage Market,* we believe it is important for FHFA to solicit ongoing input from housing finance industry participants, including NAHB, as the CSP is designed. This will help ensure that proposed developments will not have unintended consequences on the industry and the to-be-announced (TBA) MBS market.

Work toward a Single Security for Fannie Mae and Freddie Mac.

NAHB supports FHFA's proposed plan to develop a single security structure for securitized Enterprise-purchased loans in an effort to increase the liquidity of Fannie Mae and Freddie Mac MBS and reduce the pricing disparity between Fannie Mae's and Freddie Mac's individual MBS. NAHB will submit comments to FHFA in response to the agency's Request for Input on the *Proposed Single Security Structure.*

Conclusion

The Enterprises remain critical to the housing market. NAHB will support efforts to ensure they remain financially safe and sound and able to provide affordable and accessible credit for home buyers and home owners as long as that continues to be their mission. We appreciate FHFA's effort to seek input on actions impacting the Enterprises, home owners and renters, and the housing market broadly. Working with the industry to determine whether regulatory proposals or new policies implemented by the Enterprises might have unintended consequences is of utmost importance.

Thank you for your consideration of NAHB's comments. If you have questions, please contact Becky Froass, Director, Financial Institutions and Capital Markets, at 202-266-8529 or rfroass@nahb.org.

Sincerely,

David L. Ledford

David L. Ledford