



NAHB
NATIONAL ASSOCIATION
OF HOME BUILDERS

DAVID L. LEDFORD
SENIOR VICE PRESIDENT
HOUSING FINANCE AND LAND DEVELOPMENT

May 21, 2009

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
1700 G Street, N.W.
Washington, D.C. 20552

Re: RIN 2590-AA25
2009 Enterprise Transition Affordable Housing Goals

Dear Mr. Pollard:

On behalf of the more than 200,000 members of the National Association of Home Builders, I would like to submit comments on the above-referenced proposed rule, which would establish the 2009 Affordable Housing Goals for Fannie Mae and Freddie Mac (the Enterprises). NAHB is a Washington-based trade association representing members involved in building single family and multifamily housing, and remodeling, as well as participants in the Low Income Housing Tax Credit program, and those occupied in other aspects of residential and light commercial construction. NAHB is affiliated with more than 800 state and local associations.

Background

As in the past, NAHB continues to support the establishment of challenging affordable housing goals for the Enterprises. In a comment letter submitted to the Department of Housing and Urban Development (HUD) in July 2004, in response to HUD's proposed housing goals for the Enterprises for 2005-2008, NAHB endorsed HUD's efforts to strengthen the goals. However, NAHB noted at that time the difficulty of establishing precise measures of the housing finance market, and, in particular, quantifying the affordable housing mortgage market.

NAHB expressed concern about the volatility and economic uncertainty surrounding the key ingredients of the market estimates and corresponding goal levels. NAHB commented that the goals environment would be challenging over the next several years and suggested that HUD set

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the goals at the midpoint of the range estimates, rather than at the high end, as HUD proposed and was eventually implemented.

Since the 2005-2008 goals were established, the housing finance market, particularly for single family owner-occupied homes, has changed dramatically. Underwriting standards have tightened significantly, higher downpayments are required, private mortgage insurance is less available, credit standards have increased, and there has been a shift to a more narrow range of mortgage products. Although housing affordability has improved because of the decline in house prices and lower interest rates, potential homebuyers are not able to pursue homeownership due to the tighter lending standards. Further, the economy is in a deep recession, and unemployment levels are alarmingly high. The Enterprises were placed into conservatorship in 2008, and the housing goals for the Enterprises were suspended for 2008.

Proposed Goals for 2009

The Federal Housing Finance Agency (FHFA) is proposing to adjust the Enterprises' housing goals and home purchase subgoals for 2009 downward because current adverse market conditions will result in the origination of fewer loans overall and fewer goals-qualifying loans. FHFA cites as factors: stricter underwriting standards; the increased standards of private mortgage insurers; the high rate of unemployment; the increase in the share of the mortgage market that is insured by the federal government; and the decline in private label securities backed by mortgages available to the Enterprises for purchase.

FHFA is also proposing two new counting requirements: (1) jumbo conforming loans would not count towards the 2009 housing goals and (2) loans owned or guaranteed by an Enterprise that are modified in accordance with the Administration's Homeowner Affordability and Stability Plan (HASP) would be treated as mortgage purchases and count towards the housing goals.

FHFA is proposing to keep the Enterprises' 2009 minimum dollar-based special affordable multifamily housing subgoals at the current level of \$5.49 billion for Fannie Mae and \$3.92 billion for Freddie Mac.

NAHB Comments

Housing and home purchase subgoals: NAHB generally supports the FHFA's decision to lower the 2009 housing goals and home purchase subgoals, given the shift in mortgage market conditions, current economic climate and expectation that recovery is still some time off. However, NAHB points out that the tightening of underwriting standards, which FHFA cites as a factor in lowering the goals, is in large part the result of actions taken by the Enterprises themselves.

As the credit crisis has worsened, both Enterprises have lowered the maximum loan-to-value (LTV) ratio and raised the minimum FICO score requirements for eligible loan purchases. In addition, each has implemented risk based delivery fees, which they continue to increase, with higher fees for lower FICO, higher LTV loans. For example, effective April 1, the fee on a loan with a 620 FICO and a 20 percent downpayment rose to 300 basis points (including the 25 basis point adverse market delivery charge) on a loan sold to Freddie Mac, and 325 basis points on the same loan if it were sold to Fannie Mae. This translates into an increase in the borrower's mortgage rate of at least 75 basis points, which could significantly impair the ability of such a borrower to obtain credit.

The continual ratcheting up of delivery fees and tightening of underwriting standards by the Enterprises are significant factors restricting credit, particularly for low- and moderate-income homebuyers, but these factors are within the control of the Enterprises. We believe that the actions of the Enterprises have forced the pendulum to swing too far, and, as a result, viable buyers are being denied credit. While the Enterprises must operate in a safe and sound manner, beyond a point, such self-selecting measures become too restrictive. We believe that FHFA should have been more discriminating in using such factors as reasons for lowering the housing and home purchase goals.

New counting requirements: While NAHB would prefer that jumbo conforming loans be counted towards the goals, we understand that such loans are statutorily prohibited from goals credit. However, we note that there are many areas of the country where the low end of the jumbo conforming loan limits encompass borrowers who satisfy goals criteria.

NAHB supports the proposal to treat loans owned or guaranteed by an Enterprise that are modified in accordance with HASP to count towards the goals. NAHB strongly supports efforts to modify mortgages to avoid more foreclosures. Foreclosure mitigation is essential to stemming house price declines and preventing additional inventory of empty homes from coming onto the market. Allowing goals credit for such loan modifications will encourage foreclosure mitigation efforts.

Special affordable multifamily dollar-based subgoal: NAHB does not support FHFA's proposal to maintain the Enterprises' dollar-based special affordable multifamily housing subgoals at their current levels. NAHB has consistently supported higher dollar-based multifamily goals for both Fannie Mae and Freddie Mac and continues to advocate for a more challenging goal in this regard. FHFA states that "both Enterprises have exceeded their respective multifamily subgoals by wide margins in recent years, especially in 2007." According to the proposed rule, Fannie Mae's performance was 244 percent of its subgoal (\$13.42 billion compared with \$5.49 billion) and Freddie Mac's performance was 196 percent of its subgoal (\$7.68 billion compared with \$3.92 billion).

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FHFA cites as factors in its proposal to maintain these subgoals at their current levels the turmoil in the multifamily finance markets; the dramatic slowing of the economy; and the plummeting of multifamily prices from the mid-1990s through 2007. FHFA says that total originations in terms of dollars and units are expected to be lower in 2009 than they were in 2008.

While NAHB agrees that there is disarray in the multifamily finance markets, we point out that the Enterprises and the Federal Housing Administration (FHA) are currently the main, if not the only, sources of financing for multifamily rental development. We also point out that the Enterprises have been tightening underwriting standards for multifamily loans (as has been the case for single family purchases) and increasing fees, thus contributing to the difficulty of obtaining loans. Both Fannie Mae and Freddie Mac have ceased construction loan financing, leaving FHA as the only source for construction financing in the multifamily market. Although FHA's share of business has increased, many developers continue to avoid using it because of perceptions that it is too time-consuming and burdensome.

With FHFA projecting that multifamily originations will be between \$43 and \$65 billion in 2009, it is not beyond reason to expect that both Enterprises can surpass the current goals of \$5.49 billion and \$3.92 billion for Fannie and Freddie, respectively. FHFA should set these goals at a more meaningful level. NAHB therefore strongly recommends that FHFA set higher special affordable multifamily dollar-based goals for the Enterprises than proposed.

Thank you for the opportunity to submit comments on the proposed 2009 housing goals for the Enterprises.

Sincerely,



David L. Ledford
Senior Vice President