Enterprise Community Partners appreciates the opportunity to comment on the future of the Government Sponsored Enterprises (GSEs). The Obama Administration should be commended for raising thoughtful questions and commencing such an inclusive process of public input. The issues about the proper role for the government in the mortgage finance system do not have easy and obvious answers. We believe that it is much more important that the system be redesigned with an appropriate focus on important housing policy questions than it is to rush to change Fannie Mae and Freddie Mac and call it reform. Caution and respect for "the law of unintended consequences" should guide the deliberations on these issues.

Enterprise has signed onto the comments of the Center for American Progress and we endorse their recommendations. Below are additional comments that stem from Enterprise’s long experience as a housing finance intermediary with deep experience in the multifamily mortgage market. Enterprise provides financing and expertise to community-based organizations for affordable housing development and other community revitalization activities throughout the U.S. For more than 25 years, Enterprise has invested over $10 billion to create more than 270,000 affordable homes and strengthen hundreds of communities across the country.

Question 1. How should federal housing finance objectives be prioritized in the context of the broader objectives of housing policy?

Enterprise’s mission statement helps frame thinking about how to structure government support for the mortgage market. "At Enterprise, we create opportunity for low- and moderate-income people through fit and affordable housing and diverse, thriving communities. Central to our mission is Enterprise’s fundamental commitment to give people living in poverty an opportunity to move up and out. We believe that these opportunities are best provided in communities with a diverse mix of affordable and market housing options, access to jobs and social supports, and a strong commitment to the environment and civic participation."

The principles that undergird our mission statement are useful and relevant in conceptualizing how the GSEs should be better structured to support mortgage finance in a way that is consistent with good public policy.

- Enterprise has focused its efforts on rental housing because affordable rental housing is an important part of the path out of poverty. Renting housing makes sense for people at many different stages of life. Homeownership is impossible for some and it not always the best way for people to build assets. For example, homeownership in declining markets without job opportunities can trap people in poverty. It is much easier for renters to relocate to pursue job opportunities.

- There should be a better balance between federal support for homeownership and support for rental housing and the multifamily market. The past decade has been characterized by an overemphasis on homeownership that proved to be unsustainable.

- Federal policy should be focused on tools and flexibility to provide a range of housing options in varying types of markets. Enterprise works in urban and rural areas. Since 1997, Enterprise’s Rural Program has invested $800 million in grants, loans and equity and developed more than 15,000 affordable homes in rural communities nationwide. We work in strong markets with high costs and declining markets with population loss. Federal policy needs to be flexible enough to serve very different populations and markets.
The government has a role in helping ensure liquidity, access and standardization in both the single and multifamily markets, but we encourage a focus on the multifamily market because it tends to be overshadowed by the push for homeownership.

Question 2. What role should the federal government play in supporting a stable, well-functioning housing finance system and what risks, if any, should the federal government bear in meeting its housing finance objectives?

The future of the housing finance system should be considered with the broad array of federal housing policies in mind. There should be close collaboration between Treasury and the Department of Housing and Urban Development on the proposals because the direct support that the government gives through subsidies can be leveraged by a secondary market structure with the proper incentives.

Tax policy should also be considered as well. The support that the GSEs gave to the Low Income Housing Tax Credit (LIHTC) market through their LIHTC investments was critical in creating a flow of capital for affordable rental housing. The market was far more robust with Fannie Mae and Freddie Mac investing nationwide than it has been recently. If post-reform, the GSEs are retained as for-profit entities, we urge Treasury to consider requiring them to resume their critical role in providing investment capital through the LIHTC. However, if the GSEs don’t earn a profit, they can’t benefit from investing in tax credits. Even if the GSEs are not structured in the future to earn a profit and be investors in LIHTC, they may play a useful role providing liquidity to the market. They could earn fee income by providing guarantees on LIHTC investments.

Any future secondary market structure needs to support the multifamily market as successfully as the GSEs supported the LIHTC market. The federal policy embodied in the home mortgage interest deduction, which directs ever larger subsidies every year for homeownership, should be balanced with federal support for the multifamily mortgage market.

It might make sense for the government to use the flow of conventional mortgages to support affordable housing. The Housing and Economic Recovery Act of 2008 contained a model of cross-subsidization in which a fee on Fannie Mae and Freddie Mac’s transactions supported the National Housing Trust Fund and the Capital Magnet Fund. This model has advantages and should be considered, depending on how the final architecture of the housing finance system is designed.

Another model for Treasury to consider is the Federal Home Loan Banks’ Affordable Housing Program (AHP) and Community Investment Programs (CIP) that serve low- and moderate-income communities and individuals. The CIP offers below-market rate loans to members for long-term financing for housing and economic development that benefits low- and moderate-income families and neighborhoods. Through the CIP, the FHLBanks have advanced more than $56 billion for a variety of local projects since its inception two decades ago.

The AHP and CIP are a model to consider for any successor to the GSEs. They have had a direct and positive impact on the availability of critical, scarce funding needed to support the federal government’s objective of providing decent, affordable housing for its citizens. The $4 billion of AHP and the $56 billion of CIP help leverage and extend the impact of the funding made available by federal, state, and local governments.

Question 4. How should the current organization of the housing finance system be improved?

As noted above, there’s a need to analyze the roles for Ginnie Mae, FHA, LIHTC and HUD subsidies in determining how best to recreate a secondary market for multifamily finance. There is a spectrum of government involvement from direct subsidies through HUD or Treasury to indirect support through “duty to serve” requirements. The roles need to be clearly defined, which has not always been the case.
past, Fannie Mae and Freddie Mac played an important role supplying debt to finance the conventional market for multifamily housing. “Duty to serve” requirements pushed the GSEs toward financing small projects, rural projects, and complex affordable housing deals with multiple layers of subsidy. While imperfect, these requirements served a useful purpose.

We need to be careful that we don't lose the positive aspects of the current system. The GSEs’ standardization of underwriting practices and support for multifamily finance has been beneficial to the housing market overall. “Duty to serve” requirements gave the secondary market agencies a particular role to play in fostering innovation. For example, there is a real need for financial innovation to support energy-efficient, green retrofits of multifamily housing. Without “duty to serve” requirements and a healthy secondary market to create the products to facilitate green retrofits, this sector does not receive the attention it needs.

Tax policy, government subsidies through HUD and policy toward the secondary market all need to be aligned. A robust multifamily housing policy includes housing subsidies to individuals like Section 8, capital subsidies like HOME or the Low Income Housing Tax Credit, and support for a secondary market for multifamily debt. Subsidies for individuals, equity and debt are all needed to create an adequate supply of multifamily housing to serve our growing rental housing needs.

**Question 5. How should the housing finance system support sound market practices?**

Enterprise’s experience financing affordable multifamily housing with a variety of with government subsidy sources and leads us to support a “back to basics” approach in underwriting. Realistic assumptions about rents and property values are crucial to sound underwriting. Another important aspect is appropriate risk-sharing. We carefully structure transactions to make sure that incentives are aligned so that the question of who takes the first loss drives us toward prudent, conservative underwriting. Obviously, any new secondary market entity needs a regulator with independence and the authority that can enforce prudent standards.

Thank you for opportunity to comment on the future of the housing finance system. Please do not hesitate to contact me at aquinn@enterprisecommunity.org if you would like to discuss these issues further.

Sincerely,

Adrienne Quinn
Vice President, Public Policy and Government Relations