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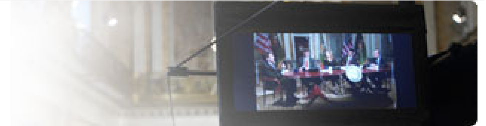

Remarks by Under Secretary for Domestic Finance Mary Miller at the National Council of State Housing Agencies

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As prepared for delivery

WASHINGTON - Good afternoon. Thank you, Barbara, for your introduction and thanks to all of you for inviting me to join you today. Before I begin, I want to acknowledge the tremendous leadership that NCSHA has demonstrated over the past few years as we have worked to relieve stress in housing markets. State housing agencies have been key partners in preserving access to mortgage credit and helping struggling homeowners in the wake of the financial crisis.

I see from your agenda that you have a great lineup of people scheduled to talk with you about the ongoing work in Washington related to the housing market and to the housing finance system: Secretary Donovan and members of his team at the Department of Housing and Urban Development; Acting Director DeMarco from the Federal Housing Finance Agency; and a number of congressional representatives as well.

Rather than covering some of the same ground that these speakers are likely to cover, my remarks focus on a couple of the areas where Treasury has a specific role working with state housing agencies. I would like to talk in particular about our joint efforts on the New Issue Bond Program, the Temporary Credit and Liquidity Program, and the Hardest Hit Funds.

But before getting into the details of those programs, I think it is useful to take a step back and look at the overall state of the economy and the housing market. As all of you know, housing, jobs, and the strength of the economy are inextricably linked. We see this at the national level, and I am sure you see and feel this keenly at the state level as well, particularly in those states that have been hardest hit by the housing crisis.

As Barbara noted, I serve at the Treasury as the Under Secretary for Domestic Finance. While this is a broad role, a key responsibility is working on housing finance issues. Housing plays such an important role in our financial system that we cannot fully restore the strength and stability of our financial system and our economy without addressing and fixing some of the challenges that the housing market continues to present.

Many of the problems that we continue to face today in the housing market are the fallout of the 2008 financial crisis and the excesses that fueled it. Four years ago a global financial crisis ravaged our markets and our economy with a force unlike anything we have seen since the Great Depression. In the United States a number of federal entities - including the Treasury, Federal Reserve and the Federal Deposit Insurance Corporation – had to undertake extraordinary measures to stabilize the financial markets and restart economic growth.

Support for the housing finance system, which was completely broken and a major contributor to the financial crisis, was a key part of the financial crisis response. Fannie Mae and Freddie Mac were placed into conservatorship, Treasury and the Federal Reserve provided essential support to the hemorrhaging mortgage market by purchasing agency mortgage-backed securities, and we also provided assistance to state housing agencies through the Temporary Credit and Liquidity Program and the New Issue Bond Program.

The American Recovery and Reinvestment Act also helped provide critical support for Low-Income Housing Tax Credits, a key tool for supporting the construction of affordable rental housing. As investor appetite for low-income housing tax credits dried up in the midst of the recession and housing crisis, the Section 1602 program, also known as the “exchange program,” allowed state housing finance agencies to exchange all or a portion of their 2009 tax credit allocation for cash. With the help of NCSHA, Treasury worked closely with 55 state housing finance agencies to implement the program.

Treasury awarded nearly $5.7 billion to these state housing finance agencies to spur the development of affordable housing and create and retain jobs. Housing finance agencies, in turn, invested the funds with over 400 developers for constructing or rehabilitating almost 1,500 housing developments with more than 89,000 rental units. Developers estimated that more than 116,000 direct jobs – carpenters, plumbers, electricians, masons, tile workers, landscapers, etc. – were involved in the construction and rehabilitation of the housing units and common areas.

The 1602 program was a critical stopgap; investors returned and are once again using low-income housing tax credits.

Treasury recently provided a broader update on the financial stability programs, including not only the Troubled Asset Relief Program known as TARP, but also the mortgage backed securities purchase program, support for Fannie Mae and Freddie Mac, and programs implemented by the Federal Reserve and FDIC.

At this point we expect these programs to generate an overall positive return, with some areas generating profits that exceed losses in other programs. This is an outcome that no one anticipated in the darkest hours of the financial crisis and represents a very good result for U.S. taxpayers.

But it is important to remember that much additional work remains to be done and that the true costs of the financial crisis and follow-on recession are much larger than the cost of the financial stability measures. After weathering the deepest recession since the Great Depression we have still not fully recovered. While Americans have experienced some rebound in retirement savings, for example, the value of their home equity – a major component of household wealth – is still less than half the level of its pre-crisis peak. While growth in the labor market appears to be gathering momentum, the national unemployment rate at 8.2% is still unacceptably high, and in some states even higher. Real GDP has only recently returned to its pre-crisis levels.

The housing market in particular remains weak, although it has begun to show some signs of stabilization. Housing starts and home sales have trended higher since last summer but remain near record low levels. Historically low mortgage rates and the decline in home prices have improved measures of housing affordability, but demand remains weak. Negative equity has also prevented many homeowners from being able to take advantage of these low rates by refinancing, with roughly one in five mortgage holders underwater on their mortgages. Other negative factors remain as well, including the large stock of homes in the foreclosure pipeline and the lack of sufficient private capital in the housing finance system to take the place of the outsized government role in the wake of the financial crisis.

We have recently been focusing on a number of measures to address these challenges:

Broadening access to refinancing for homeowners who are current on their mortgage payments but may be underwater on their loan. This initiative is known as HARP 2.0 and was rolled out in December 2011.

Developing a national program for Fannie and Freddie to dispose of foreclosed properties on their balance sheets to meet rental demand; and

Continuing to provide and improve upon hardship assistance, like the Hardest Hit Funds that reach the states that have been most impacted by the crisis.

We have also asked FHFA to allow the GSEs to participate in the principal reduction alternative of the Home Affordable Modification Program known as HAMP. Given the large percentage of outstanding mortgages that are currently backed by Fannie or Freddie, it is important that the GSEs participate in this program. As you know based on the programs that you have implemented in your states, principal reduction can be a useful tool to provide sustainable modifications for underwater homeowners, reducing the likelihood that they will lose their homes.

Principal reduction is an important tool to have at our disposal as we continue to repair the damage caused by the housing crisis. In some targeted cases, principal reduction makes economic sense for both the homeowner and the lender – helping reduce investor losses and preventable foreclosures over the long term. That's the view of not only the Administration and others within government, but also many private market participants. The most recent quarterly survey from the Office of the Comptroller of the Currency showed that, of those mortgages held by private investors, nearly one in five that were modified reduced principal. Indeed, in the each of the last six months, more than 40 percent of non-GSE mortgages modified through HAMP included principal reduction.

We believe it would be valuable to expand the availability of this option to additional homeowners, including those with mortgages backed by Fannie and Freddie. It would not only help stabilize communities, but also reduce losses to the GSEs and the taxpayer. As Secretary Geithner has recently said, the number of families who would benefit is not overwhelmingly large, but is significant and "any time we think there's a way to help more people stay in their homes, help facilitate transitions to other forms of housing, help repair and heal the damage, we're going to keep doing that."

Housing Finance Agency Initiative:

Let me now turn to an existing Treasury program that works towards those goals and that you are all familiar with – the Housing Finance Agency Initiative and its two components, the New Issue Bond Program – NIPB – and the Temporary Credit and Liquidity Program – TCLP.

In 2009, State and local HFAs were issuing less than 25% of their historical average bond sales, with many HFAs forced to shut down lending entirely. In response to this market disruption, the participants in the HFA Initiative – Treasury, FHFA, Fannie and Freddie, and the HFAs – worked hard to align their interests and create a program that has turned out to be a successful and innovative partnership to help HFAs resume their important role in affordable housing finance.

As you well know, over the last 2 years HFAs have used NIBP to support many activities, from buying a first home; preserving affordable rental housing, purchasing and repairing foreclosed properties; to providing housing to the elderly, the homeless, and people with special needs. We believe the funding provided by Treasury, through the GSEs, has had a significant positive impact.

Overall, 92 State and local HFAs have participated in NIBP. Of the $15 billion in funding allocated under the program, approximately 80 percent has been used or is committed to finance new housing bonds or refund outstanding obligations. HFAs have quietly but efficiently financed over 100,000 single family units and over 24,000 rental units through the program. As one former colleague at the Treasury put it, “the HFA Initiative is the most successful housing program that no one has ever heard of.”

NIBP was originally intended to be a one-year program, but it has been extended twice to allow HFAs more time to deploy the funding. Under the most recent extension, HFAs had until April 2 to notify Treasury whether they intended to use their remaining funds in 2012 or return the funds and exit the program. I’m glad to report that only $460 million was returned by State HFAs, leaving them with $2.4 billion to use. Of the 32 State HFAs with NIBP funds remaining at the end of 2011, 30 have opted to continue in the program, indicating a confidence they can deploy the remaining funds.

The Temporary Credit and Liquidity Program originally provided 12 HFAs with credit and liquidity support for $8.2 billion in Variable Rate Demand Obligations or VRDOs, stepping in when bank credit facilities dried up. Currently, seven HFAs remain in the program, and Treasury’s aggregate exposure is down to about $5.2 billion, as obligations have been paid down or replacement liquidity providers have been found.

The TCLP facilities are being extended through 2015, and participating HFAs must develop detailed plans to reduce their exposures in the interim. The HFAs need to formulate and execute thoughtful but aggressive exit strategies over the next three years because TCLP cannot be extended beyond 2015. Both the authority and the appropriation for TCLP, which were contained in the Housing and Economic Recovery Act of 2008, have now expired. HFAs remaining in TCLP must use all available tools to pay down their VRDOs, convert them to obligations that do not require liquidity support, or find alternative sources of liquidity. We have received preliminary plans from the seven HFAs remaining in TCLP, and along with the GSEs, have been in close contact with their CFOs. We expect to reach agreement on final plans in the coming months and will include elements of the plans in the terms of the TCLP extension.

While successful, both NIBP and TCLP are temporary programs designed to address a short-term market failures in the traditional HFA business model. Almost three years into these programs, however, we face the question of whether the current outlook for HFAs still represents a temporary disruption, or a new equilibrium that will require HFAs to change their business model. We all need to think critically about this subject and the future of HFAs.

In evaluating the question, Treasury recognizes both the strengths and the challenges facing HFAs. Among the HFA’s strengths is unmatched local knowledge necessary to meet the unique needs of specific communities, a superior track record in minimizing defaults among first-time home buyers, the ability to combine effective counseling and proactive servicing with underwriting activities, and strong performance in multi-family portfolios.

Challenges include the continuing imbalance between tax-exempt funding rates and market mortgage rates, limited investor base for mortgage revenue bonds, high liquidity fees for variable rate debt – which still constitutes one-third to one-half of all borrowing for some HFAs – and the financial deterioration of traditional HFA counterparties providing insurance and investment contracts.

In addition to these strengths and challenges, of course, there is the larger question of how housing finance reform will affect the affordable housing delivery system in which HFAs operate.

It will take time for the markets and policy makers to work through these issues. Treasury’s experiences over the last few years with NIBP and TCLP have led not only to valuable information and perspectives, but important professional relationships with HFAs and the financial institutions supporting them. We look forward to working with NCSHA and the HFA community to discuss options for how HFAs can continue their crucial mission of providing affordable options for homeowners and renters.

Hardest Hit Fund:

The success of the partnership with your organization and the HFAs with the programs I’ve just discussed led us to establish the Hardest Hit Fund (HHF) in 2010. As part of the Administration’s overall strategy for restoring stability to housing markets, HHF provides funding for state HFAs to develop locally-tailored foreclosure prevention solutions in areas that have been hard hit by home price declines and high unemployment. From its initial announcement, this program evolved considerably from a relatively small, $1.5 billion initiative focused on HFAs in the five states with the steepest home price declines to a broader-based $7.6 billion initiative encompassing 18 states and the District of Columbia.

State HFAs have responded by developing a range of programs tailored to their markets including programs that provide bridge loans to unemployed homeowners, cure arrearages for homeowners who experienced a prior hardship, provide principal reduction through a modification or second lien extinguishment, and assist homeowners looking to transition out of their home with a short sale or deed-in-lieu of foreclosure. Through March 2012, state HFAs have reported assisting more than 45,000 homeowners and another 38,000 homeowners are under review for assistance.

But getting to this point was challenging as state HFAs, who were largely in the business of providing financing, had to retool and develop systems and infrastructure to reach at-risk homeowners and operate their programs. For many HFAs, this meant hiring new staff and bringing on key partners, such as housing counseling organizations, to help them market their programs and provide intake and eligibility screening services. The pace of spending on HHF programs has picked up momentum in the first quarter of 2012, and we look forward to the full deployment of this assistance to homeowners.

And the value of this work – both by HFAs and their partners – cannot be overstated. HFAs know their local housing markets, and a particular strength is their responsiveness to the people they are working to assist, serving as a constant touch point for homeowners and making adjustments to programs and operations based on lessons learned and addressing the changing needs of homeowners. Over the course of the program, HFAs have made their programs more flexible, recognizing the need to encapsulate a wide variety of homeowner hardships and experiences. We support this approach and have worked closely with HFAs to adapt their programs quickly and make them as effective as possible.

Beyond this approach, Treasury also believes that the value of HHF lies in the states' investment in infrastructure and longer-term capacity to provide foreclosure relief. In addition to selecting and training networks of housing counselors, state HFAs are using these funds to create homeowner portals to apply for assistance and hire underwriters and other staff to review and approve applications. As a result of this investment, each state HFA has developed a deep knowledge base that will extend beyond the life of the program. Even now, as state attorneys general are weighing how to distribute funds from the foreclosure settlement, state HFA staff have been key consultants on how to effectively use those funds. Some state HFAs even report that foreclosure settlement dollars will leverage the infrastructure of their HHF programs – utilizing staff, systems, marketing approaches, and partnerships – to provide foreclosure relief for homeowners who are struggling, but not eligible for HHF-specific assistance.

This crisis was unprecedented and we knew that the solutions to relieve stress in the housing markets needed to address the evolving nature of this crisis as well as modern-day social, political and economic constraints. As a key collaboration between federal and state authorities, HHF has led the way in incubating these approaches, and the Treasury team and I look forward to working with you to identify best practices over the coming months and years.

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I would like to conclude by expressing my support for your work and the vital role you play in helping homeowners in your states. Last week, I visited the Nevada Hardest Hit Fund at their offices in Las Vegas and had the chance to hear about the work they are doing and the challenges they are facing in one of the states that continues to suffer the most from the housing crisis. Like all of you, they are working hard to find the most effective ways to help homeowners in their state make the best of an extremely difficult situation. While it is certainly important for us to keep working on developing and implementing the best policies that we can at the federal level, we are well aware that each of you is fifty times closer to the circumstances and best positioned to identify and address the needs of the markets and families you serve on a daily basis.

No single federal or state or private sector program will provide the solution to all of the challenges we face in restoring the health of our housing system. But it's important for all of us to remember that every time one of your programs provides assistance that helps keep a family in their home, find affordable rental housing, or buy a new home, it is not only a small step towards repairing our housing market and rebuilding our economy, it is more importantly a giant step for that family.

Thank you for the work you do every day and thank you again for inviting me to join you. I look forward to continuing to work with you to restore the health of our nation's housing system.

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