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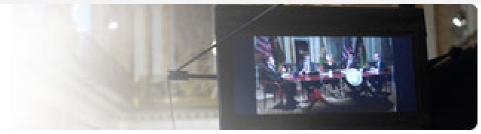

Counselor to the Treasury Secretary for Housing Finance Policy Michael Stegman at the “America’s Rental Housing: Evolving Markets And Needs” Event hosted by the Joint Center For Housing Studies of Harvard University

12/9/2013

WASHINGTON - Thank you for that kind introduction. It’s great to be here with you all today because I feel a very special connection for the sponsor of America’s Rental Housing Report.

I go back a long way with Eric Belsky and Nic Retsinas, and Bill Apgar, and their predecessors; in fact I’m probably one of the few people in this room that actually knows what the “Joint” in Joint Center stands for.

And my admiration and respect for the MacArthur Foundation, the financial supporter of the report being rolled out at this event, runs equally deep.

To my friends and former colleagues, Mijo Vodopich and Ianna Kachoris, I say, congratulations to you for a job well done, because I know how important program officers are to the quality and impact of the projects they fund.

As Secretary Donovan mentioned earlier, the report we are here to discuss contains insightful data and smart analysis. One does not consult a Joint Center report to get the latest in housing advocacy.

Rather, advocates and policy makers alike use the Center’s data, analysis, and forecasts to bolster their own cases for policy action. Indeed, a hallmark of the Center’s work is its astute analysis of nascent trends that lead advocates and policy makers alike to call for the kind of public and private actions that would create stronger neighborhoods and more communities of opportunity.

The report rightly concludes that the confluence of forces flowing from the financial crisis and Great Recession have “brought renewed appreciation for the benefits of renting, including the greater ease of moving, the ability to choose housing that better fits the family budget, and the freedom from responsibility for home maintenance.”

These, among other reasons, are why the Obama Administration has made expanding rental housing opportunities for American families one of the pillars for housing finance reform—which include:

Ending once and for all the failed business models of Fannie Mae and Freddie Mac;

Putting private capital back at the center of the housing finance system;

Providing an explicitly priced government backstop for qualified mortgage-backed securities to ensure a deep and liquid secondary market and continued widespread access to the 30-year, pre-payable, fixed-rate mortgage; and,

Ensuring the availability of multifamily mortgage credit to produce and preserve broadly affordable rental housing in good times and bad, which is critical to moving toward a more balanced national housing policy as Secretary Donovan discussed with you earlier this morning.

As President Obama said this summer in Phoenix, “we should make sure families that don’t want to buy a home, or can’t yet afford to buy one, have a decent place to rent. In the run-up to the crisis,” the president noted, “banks and the government too often made everyone feel like they had to own a home, even if they weren’t ready.

That’s a mistake we shouldn’t repeat”, he said. “Instead, let’s invest in affordable rental housing. And let’s bring together cities and states to address local barriers that drive up rent for working families.”

Since August, we have made substantial progress toward translating the President’s principles into concrete policy proposals that can help guide comprehensive legislation. In the few remaining minutes I have to spend with you, I would like to discuss our vision for multifamily rental housing finance reform.

In a reformed housing finance system, well underwritten single-family and multifamily mortgage-backed securities would require substantial private capital in a first-loss position before the federal catastrophic guarantee is triggered.

Interestingly, while Fannie Mae and Freddie Mac-- and now the taxpayers--guarantee virtually 100 percent of the credit risk on their single-family books of business, the GSEs have been operating very successful multifamily programs that feature private capital taking significant first-loss risk in front of what their respective guarantees, consistent with the Administration’s housing finance reform principles.

As you know, under its Delegated Underwriting Service program, Fannie Mae guarantees the entire multifamily bond and lays off a sizable share of its credit risk to originating lenders. While under its Multifamily K Series multifamily program, Freddie Mac as bond guarantor lays off risk through a senior/subordinate structure, guaranteeing only the senior bond.

Our goal is to enable these and other types of risk-sharing models to flourish in a reformed system that is more competitive, with many more participants involved than is the case today where the two Enterprises dominate the marketplace.

And speaking of building on programs that work, the Administration also recognizes the foundational role played by the Low-Income Housing Tax Credit which has catalyzed the production and preservation of 2.5 million affordable rental homes since the late 1980s with a cumulative foreclosure rate of only 0.6 percent.

LIHTC has helped both revitalize distressed neighborhoods and expand housing in high-opportunity areas.

Importantly, LIHTC enlists market forces to improve its operation in at least two ways:
First, the competitive process by which states allocate credits each year results in better targeting of the federal tax subsidy; and,

Second, by taking advantage of investors’ interest in receiving their credits (which are paid out over a period of years as long as the property remains credit-eligible), the credit's statutory structure enlists the investors’ assistance in overseeing buildings’ compliance with applicable requirements.

For these reasons, the Administration’s proposal for business tax reform not only maintains the credit but also includes several enhancements and improvements to current law.

And, it is especially important to explicitly address affordability concerns in a private capital-centric housing finance system where the federal backstop is fairly priced and the GSEs’ affordable housing goals have been repealed.
We would do this in three ways:

(1) Promote a level playing field for borrowers, lenders, and communities who interact with secondary market participants;

(2) Broaden the base of the modest assessment on federally–guaranteed, mortgage-backed securities to support affordable housing through the Housing Trust Fund, the Capital Magnet Fund, and a Market Access Fund currently included in the Senate’s bipartisan housing finance reform measure sponsored by Senators Corker and Warner, as well as four Democratic and five Republican co-sponsors; and,

(3) Incorporate affordability standards for multifamily housing, because in the absence of affordable housing goals, there is no assurance that beneficiaries of guaranteed mortgages would produce or preserve broadly affordable rental homes.

Our current thinking is that in order to access a government catastrophic guaranty, a significant share of all units within a private multifamily guarantor’s portfolio of new loans purchased for securitization must be affordable to households at specified levels of local area median income.

Such requirements would be generally consistent with levels of multifamily affordability currently achieved by the GSEs.

Moreover, to discourage use of the federal guaranty for production of luxury apartments, we would propose that the federal regulator of the reformed system establish an appropriate surcharge on the government guaranty fee on such properties.

The proceeds of the surcharge would be allocated to affordable housing through the three funds discussed earlier whose primary capital source would be the explicit, modest assessment on specified mortgage products.

In closing, let me be clear that while there is a lot more work to be done to bring housing finance reform to the finish line, this Administration appreciates the importance of rental housing to current and future generations of American families, and will work diligently to make the kinds of provisions that I have discussed part of a reformed mortgage finance system.

Thank you.

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