Obama Administration Announces State and Local Housing Initiatives

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As part of its comprehensive plan to stabilize the U.S. housing market, the Obama Administration has announced a new initiative for state and local housing finance agencies (HFAs) that will help support low mortgage rates and expand resources for low and middle income borrowers to purchase or rent homes that are affordable over the long term. Following up on the intent to support HFAs first outlined in February under the Homeowner Affordability and Stability Plan (HASP), the Administration's initiative has two parts: A new bond purchase program to support new lending by HFAs and a temporary credit and liquidity program to improve the access of HFAs to liquidity for outstanding HFA bonds.

The HFA Initiative will provide hundreds of thousands of affordable mortgages for working families and enable the development and rehabilitation of tens of thousands of affordable rental properties. It will do this at little or no cost to the taxpayer because it is paid for by the HFAs themselves and, as a temporary program, it incentivizes HFAs to transition back to market sources of capital as quickly as possible.

"This initiative is critical to helping working families maintain access to affordable rental housing and homeownership in tough economic times," said Treasury Secretary Tim Geithner. "Through the years, many low and moderate income Americans have been well served by state and local HFAs, but the housing downturn has hit these organizations too. Through this initiative, the Administration aims to help HFAs jumpstart new lending to borrowers who might not otherwise be served and to better support the financing costs of their current programs - key components in stabilizing the housing market overall."

"Housing Finance Agencies are critical partners to helping American families through this tough economic time," Department of Housing and Urban Development (HUD) Secretary Shaun Donovan said.

"Today's announcement makes clear this Administration's commitment to providing responsible homeownership opportunities, affordable rental homes and getting our housing market back on track."

"FHFA supports this initiative and the important role Fannie Mae and Freddie Mac will play in implementing it," said Federal Housing Finance Agency (FHFA) Acting Director Edward J. DeMarco. "The HFA program has been structured to be on commercially reasonable terms for the Enterprises, to be carried out by the Enterprises in a safe and sound manner, and to support market liquidity, stability, and affordable housing. I wish to thank FHFA, HUD, Enterprise and Treasury staff for their hard work and leadership in developing this program."

The Department of the Treasury and HUD, together with the FHFA, Fannie Mae, and Freddie Mac, have developed this initiative to maintain the viability of HFA lending programs and infrastructure. The key parts of the new initiative are:

- New Issue Bond Program (NIBP): The NIBP will provide temporary financing for HFAs to issue new mortgage revenue bonds. Using authority under the Housing and Economic Recovery Act of 2008 (HERA), Treasury will purchase securities of Fannie Mae and Freddie Mac backed by these new mortgage revenue bonds. The program can support several hundred thousand new mortgages to first-time homebuyers this coming year, as well as refinancing opportunities to put at-risk but responsible and performing borrowers into more sustainable mortgages. The new bond issuance will also support development of hundreds of thousands of new rental housing units for working families.

- Temporary Credit and Liquidity Program (TCLP): Fannie Mae and Freddie Mac will provide replacement credit and liquidity facilities available to HFAs that will help reduce the costs of maintaining existing financing for the HFAs. The agreements will serve to help relieve financial strains experienced by HFAs and enable them to continue their important work. Treasury will backstop the GSE replacement credit and liquidity facilities for the HFAs by purchasing an interest in them using HERA authority.

HFAs will pay a fee to have access to both programs under the HFA Initiative. These fees have been designed to cover expected costs to the Treasury Department and the taxpayer. The fee for the TCLP will also increase over time to encourage HFAs to find private alternatives as quickly as possible. The HFA Initiative has also been designed to include other features that minimize risk to the taxpayer, such as requiring HFAs that issue new bonds under this program to also prove their ability to issue bonds to private investors.

The initiative is designed to be temporary in nature and will be available for only a short window to help bridge the transition period as the HFAs resume their activities after experiencing a number of challenges in the course of the housing downturn. After today, each HFA that desires to participate will be asked to develop a program participation request in consultation with Treasury, Fannie Mae, and Freddie Mac, indicating its desired level of participation in either the new bond or liquidity program. These requests for new issuance should generally not exceed what the HFA would have received in allocation from Congress for a similar period through 2010 and will generally follow the allocation formula established for 2008 by HERA.

If program demand is smaller than these guidelines would allow, the total program size will be capped at a lower amount. This bottom-up review is being used to prudently shepherd taxpayer resources, and the program will not be sized any larger than needed to meet specific demand.

Pricing under the program will reflect both the cost of any financing required by Treasury as well as a fee designed to cover any risk posed by the HFA. While there is risk that losses could exceed estimates, the fee schedule Treasury has adopted is designed to cover net losses under most stressed conditions and thus would minimize risk to the taxpayer.

"We are pleased that the federal government recognizes the critical role that HFAs play in the housing and economic recovery," said Susan Dewey, executive director of the Virginia Housing Development Authority and National Council of State Housing Agencies (NCSHA). "HFAs have a proven track record of making prudent loans with sound underwriting standards. However, recent conditions in the capital markets have hindered the ability of HFAs to provide their customary loan products. This proposal allows HFAs to continue offering below-market rate financing to first-time homebuyers, and we are ready and well-positioned to immediately begin implementing these critical programs. In Virginia, this proposal allows VHDA to continue assisting first-time homebuyers, who we believe are the foundation for the housing and economic recovery."