

# NLIHC Responds to HUD, Treasury Questions on the Federal Government's Role in Housing Finance

*NLIHC's Memo to Members*  
*July 23, 2010*

NLIHC provided comments on July 21 to a joint request from the Department of the Treasury and HUD for input on the establishment of a more stable and sound housing finance system. On April 22, the departments published seven questions to which they sought answers.

The questions come as the current economic and housing crises have raised serious issues regarding the U.S. housing finance system, specifically Fannie Mae and Freddie Mac. The government sponsored enterprises (GSEs) have been under federal conservatorship since September 2008, and Congress and the Administration are under increasing pressure to determine their fate.

At an April 14 hearing on housing finance and the future of Fannie and Freddie that was held by House Financial Services Committee Chairman Barney Frank (D-MA), HUD Secretary Shaun Donovan announced that the Administration would post a series of question about the future of the housing finance system as a means of seeking public input into the development of the Administration's proposal for the future of the GSEs. The questions include ones on the role the federal government should play in supporting the housing finance system and suggestions for improving the system.

In responding to the questions, NLIHC offered four core principles that should guide federal housing finance reform:

- The federal housing finance system is a tool to achieve federal housing policy, not an end unto itself.
- Federal subsidies to the housing sector should be directed to meeting the needs of those with the most serious housing problems first.
- All segments of the housing finance sector have a duty to contribute to solving the most serious housing problems.
- Federal policy should not favor one form of tenure over another; rather, federal policy should incentivize balance in the housing market and the full range of needed housing choices in every community.

NLIHC expanded on these principles in its comments, noting that the role of the federal government in housing policy is to make good on the promise of the Housing Act of 1949, which calls for "a decent home and a suitable living environment for every American family." Federal interventions in the housing finance system should "be assessed and justified in terms of how they advance the overall goal of a decent home and a suitable living environment for every American family," NLIHC said.

NLIHC also noted that the bulk of housing subsidies are provided to homeowners in the form of the mortgage interest deduction, and that these subsidies should be redirected to meeting the most pressing housing needs, housing for families with extremely low incomes. The letter documented the shortage of housing for these households, noting that in the United States today there are 9.2 million extremely low income (ELI) renter households, but only 6.1 million rental homes these households can afford. "The federal government provides large subsidies for housing, but these subsidies are not being directed to where they are needed the most and where they would do the most good," NLIHC said. "Housing finance reform must address this regressive approach to housing policy."

Also noted by NLIHC was the need for all segments of the housing finance system to contribute directly to solving housing problems. In July 2008, Congress enacted reforms for Fannie and Freddie that included a requirement for direct contributions to the Capital Magnet Fund and the National Housing Trust Fund, the latter of which is specifically designed to address the shortage of rental housing for the lowest income people. However, these contributions were suspended before they ever started when Fannie and Freddie went in conservatorship. “Whatever form Fannie and Freddie take in the future, the obligation to contribute to the National Housing Trust Fund must be renewed and expanded.” NLIHC would place a similar obligation on other market players.

NLIHC also stressed the importance of developing a balanced housing policy that supports affordable rental housing as well as homeownership. NLIHC reflected on the continuing bias in housing policy favoring homeownership, noting that the federal government spends much more to support homeownership, which was subsidized at levels above \$300 billion in 2009, than it spends on HUD programs, which received \$44 billion that year. Further, the difference in the distribution of the two types of funds is striking. “No one waits in line to claim housing subsidies through the tax code,” because they are entitlements while rental housing is largely supported and limited by the appropriations process, NLIHC wrote.

“The best way to help a family become ready for homeownership is to make sure they can have the opportunity to succeed at renting,” NLIHC concludes. “When renting is affordable, it offers low income families housing stability and time to save money to buy a home in the conventional market. A rental housing market that functions well for everyone is a necessary element of a well-functioning homeownership market.”

The Dodd-Frank bill signed by the President this week (see article elsewhere in Memo) also addresses the issue of the future of housing finance, requiring the Administration to produce a report by January 2011 that recommends options for ending the GSEs’ conservatorships. Chairman Frank is expected to hold additional hearings this fall on the issue.

A copy of NLIHC’s comments can be found at: <http://www.nlihc.org/doc/NLIHC-comments-TREAS-Do-2010.pdf>