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Introduction

Thanks very much Lloyd for that kind introduction, and thank you Buzz for inviting me to help close out this terrific conference by sharing with you and members and supporters of the National Association of Affordable Housing Lenders the Administration's perspective on critical housing issues.

I will begin with some comments on the ongoing housing market recovery, provide updates on our programs to help struggling homeowners, GSE reform, and our Treasury-HUD multifamily risk-sharing partnership, and then close with a discussion of some interesting ideas raised by housing stakeholders as part of the Administration's ongoing outreach efforts to the affordable housing community.

Housing Market Conditions

A confluence of forces continues to strengthen the housing market. Financial and mortgage market reforms put in place following the Great Recession helped millions of struggling homeowners save their homes and installed guardrails to protect consumers against predatory mortgages and unaffordable loan payments.

These bold reforms helped set the stage for a turnaround in the housing market, and it is good news, indeed, to learn that the 2014 HMDA data provide no evidence that the new Qualified Mortgage rules have curtailed mortgage availability.

The housing recovery has been fostered by strong job creation, rising earnings, and a rebound in consumer confidence that have resulted, in part, from the important countercyclical policies put in place by the Administration and Congress. One particularly promising sign for future housing demand is that household formation has stepped up notably over the past year.

Home prices have seen a rebound at the national level over the past few years, boosting household wealth. Home prices now appear to be rising at a solid 4-5 percent year-over-year pace and have recovered more than half of their decline during the housing bust.

The result of the home price recovery has been a substantial decline in the share of homes that are underwater with their mortgages, from 25 percent in 2010 and 2011, to less than 9 percent today. Aggregate housing wealth has reached $21.5 trillion, up from a low of $16.1 trillion in 2011. This rise in housing wealth is supporting consumer demand and the broader economy.

New single family construction activity continues on a gradual upward trajectory. Multifamily construction has recovered more rapidly than single-family construction and is back in the range seen before the crisis. However, the rapid rise in rents suggests that such activity is not high enough to meet demand.

We remain particularly concerned about the supply of affordable housing. According to the Urban Institute, only 28 adequate and affordable units are available for every 100 renter households with incomes at or below 30 percent of the area median income.

Homeownership continues to be a goal for most households. According to a recent Federal Reserve Board survey, 87 percent of young adults (aged 25-34) who were renting said that they would prefer to own if they could afford it. To achieve this goal, aspiring homeowners will need among other things, access to mortgage credit.

Despite some modest easing of credit constraints, lending is still tepid and many qualified borrowers continue to have very limited access to mortgage credit. This is a high priority area for the Administration and we are pleased to see that according to HMDA data, after several years of decline, African-Americans and Latinos increased their respective market shares of home purchase loans in 2014—but this slight improvement is not enough, and means more work needs to be done.

In addition, the FHA's recent 50 basis point reduction in the mortgage cost has led to a large surge in overall volume contributing to a rise in the number of first-time homebuyers.

Continuing Support for Struggling Homeowners

Meanwhile, the legacy of the foreclosure crisis continues to diminish. Delinquency and foreclosure rates continue to drop, as do the number of distressed sales. Nevertheless, there is more work to be done as well, which is why both FHFA and the Treasury Department have extended their suite of programs to help still-struggling borrowers through the end of 2016.

Since its inception in 2009, HARP has enabled more than 3 million people with little or no equity in their homes refinance into a lower interest, and in many cases, more stable mortgage product.

And, Treasury's HAMP program, also launched in 2009 to help distressed homeowners avoid foreclosure, has resulted in more than 2.4 million homeowner assistance actions, including providing permanent, affordable loan modifications to more than 1.5 million households.

And, re-default rates for borrowers who have received a mortgage modification have run significantly lower among mortgages that were modified since the program was put in place. Depending on the type of loan, mortgages that were modified in 2013—24 months ago—had re-default rates that were between 32 and 55 percentage points lower than those modified in 2008.

Along the way, the HAMP program has helped to radically transform for the better an ill-prepared mortgage servicing industry.

As we approach the end of HAMP, Treasury has kicked off a series of conversations with various stakeholders including homeowners, mortgage servicers, counselors and other advocates about Life after HAMP—distilling best practices and lessons learned and working to develop a consensus framework for voluntary standards the servicing industry should adopt in order to be prepared for the next crisis.

GSE Reform

Before discussing what we would like to see happen in this Congress on GSE reform, you should be aware that last week the Administration made clear its opposition to taking any action in support of what has become known as "recap and release." We believe that recapitalizing the GSEs with taxpayer funds and administratively- or legislatively- releasing them from conservatorship with a business model that conflicts with their public mission- in essence turning back the clock to the run up to the crisis- would be both bad policy and poor stewardship of the taxpayers' interest; willfully recreating the very system that helped do this nation so much harm.

In remarks I presented two weeks ago at the Mortgage Bankers Association conference, I cautioned that no one should be misled by the increasingly noisy chorus of the advocates of recap and release, many of whom have placed big bets against reform so they can make a profit, and are doing everything they can to make sure that those bets pay off.

Nor, I said, should their promise that recap and release would generate a pot of money for affordable housing be taken seriously.

Despite claims to the contrary, recapitalizing the GSEs would not itself provide any resources for affordable housing. Nor can a related – or even unrelated – sale of Treasury's investment in the GSEs provide any resources for affordable housing. The proceeds of the sale of any GSE obligations acquired by Treasury must by law be "dedicated for the sole purpose of deficit reduction."

Rather than freeing recapitalized GSEs from conservatorship with their flawed charters intact, we should pursue more comprehensive approaches to reform such as those that members of Congress have introduced over the past two years including mutualizing Fannie and Freddie, or build upon bipartisan agreements on the features of a future secondary market system that were hammered out in the Senate Banking Committee last year:

Preservation of the TBA market; an explicit, paid for government guarantee of catastrophic losses for investors in qualifying MBS; maintaining a clear separation of the primary and secondary markets; ensuring the flow of mortgage credit in both good times and bad; separating the securitization plumbing from private credit risk taking; ensuring that community lenders have the same access to the secondary market as big banks; and making the benefits of government guaranteed MBS available to all households – both those who choose to rent and those with the ability and desire to own.

Members in Congress also reached bipartisan consensus on a transparent way to serve those the private market cannot serve without subsidy, through an annual 10 basis point assessment on the outstanding balance of government-guaranteed MBS—which once fully implemented, would generate about 15 times more resources a year for affordable housing than FHFA is expected to raise through the GSEs' current affordable housing levy--though we were pleased to see the Director begin collections on the affordability fee and look forward to effectively implementing the dollars through the Housing Trust Fund and the Capital Magnet Fund that should become available for the first time in the early months of 2016.

But there is much more work to be done on ensuring a level playing field in the new system, including a robust role for community banks and credit unions who know how best to serve their customers, and ensuring that all communities are served fairly, which can be most effectively achieved through a statutory duty to serve. Regrettably, the Committee could not agree upon such a provision during last year's negotiations, and we will continue to fight for it.

An Update on HFA Risk Sharing

As we continue our efforts to achieve housing finance reform, the shortage of affordable rental housing, especially for extremely low-income households, is growing more acute. According to the National Low Income Housing Coalition, in 2010, there was a need for 6.8 million units both affordable and available to extremely low income households; this figure rose to 7.1 million by 2013.

Consequently, it is imperative that we use every non-legislative tool at our disposal to get more out of every available housing dollar to drive capital to underserved markets and reduce financing costs. This is what Treasury's new partnership with HUD is all about—where the Federal Financing Bank (FFB) funds multifamily mortgage loans insured by FHA under its Multifamily Mortgage Risk-Sharing program at rates comparable to a Ginnie Mae execution.

We closed our first transaction under this program in October 2014 with the New York City Housing Development Corporation, and now have 13 participating HFAs, with an expected volume for FY 2016 of between $735 million and $1 billion.

Recently, HUD approved an FFB Risk Sharing execution for developments in its Low Income Housing Tax Credit Pilot, which is an expansion of FHA's 223(f) program.

This means that HFAs will now be able to finance the acquisition/refinancing of qualified residential rental developments, as well as moderate rehabilitation of up to $40,000/unit, by selling a 100% undivided participation interest in that loan to the FFB. HFAs will also be able to take advantage of the substantially shortened loan processing times and other benefits available through the Tax Credit Pilot. This program is available for re-syndicated LIHTC projects as a much-needed preservation tool.

We also expect to roll out a new construction/substantial rehabilitation program by the end of the year. And, thanks to some very productive work with many of you, we are making significant progress on adding a small building component to the risk sharing program.

As you know, small buildings with between 5 and 49 units are a critical component of our nation's multifamily rental market, but the individuals, households, estates, and non-profits that own or sponsor these small properties face significant constraints in accessing long-term fixed rate financing.

The objective of this SBRS program is to provide lenders who want to serve this market with access to reasonably priced, long term, fixed rate capital, including direct access to FFB financing, for small loans no greater than $3 million, or $5 million in high cost areas. We look forward to rolling out this product some time next spring.

Finally, let me conclude with a discussion of some ideas for expanding access to credit and affordable housing that we heard in roundtables convened by Treasury and the National Economic Council over the last several months, and with conversations with other stakeholders. Taking the pulse of a wide range of experts is always informative and can lead to practical changes in policy.

One example is that a Treasury conference in 2012 on vacant and abandoned properties led to changes in the Hardest Hit Fund which made available hundreds of millions of dollars to states to demolish blighted properties to help stabilize neighborhoods in Michigan, Ohio and several other participating states.

These meetings typically start with participants underscoring the importance of rental assistance and the foundational role of the low income housing tax credit in the affordable housing delivery system, urging the Administration to protect LIHTC against any efforts to undermine it.

And because of the flexible financing it provides for affordable housing and neighborhood-strengthening investments in commercial and community facilities, there is equally strong support for the New Market Tax Credit.

With the shortage of affordable rental housing growing more acute, let me assure you of our continuing rock-solid support of these essential resources. We remain committed to enhancing and making the New Market Tax Credit permanent, and to refining and improving LIHTC's effectiveness through the suite of provisions we put forward in this year's budget and will continue to fight for.

As you recall, these would allow conversion of private activity bond volume cap into more LIHTC authority; (ii) encourage mixed income occupancy by allowing LIHTC-supported projects to elect a criterion employing a restriction on average income; (iii) change formulas for 70 percent present value (PV) credit rate and 30 percent PV LIHTCs; (iv) add preservation of federally assisted affordable housing to allocation criteria; (v) remove the Qualified Census Tract population cap; and (vi) implement a requirement that LIHTC-supported housing protect victims of domestic abuse.

Also offered up were several legislative proposals: one would convert the existing GSE affordable housing levy from a one-time assessment on each dollar of new mortgage purchases each year to a running fee over the life of each new loan; another would give FHFA the authority to expand the GSEs' duty to serve beyond the three specified underserved markets of manufactured housing, rural markets, and affordable rental preservation; and a third would expand the highly successful Federal Home Loan Bank Affordable Housing Program, or AHP.

AHP has generated over $4.8 billion in affordable housing resources for nearly 760,000 households since the program began in 1990. Funded outside of the appropriations system through a required allocation of ten percent of the profits of each regional Federal Home Loan Bank, some advocates proposed that the share of FHLB profits going to the AHP be increased from ten to 30 percent;

the rationale being that until recently, twenty percent of FHLB profits were diverted to help pay off the bonds that funded the savings and loan bailout, and with those bonds now fully retired, those freed up resources should be dedicated to affordable housing.

Advocates further justify their proposal by pointing out that like Fannie Mae and Freddie Mac, the Federal Home Loan Bank System is supported by a perceived federal guarantee, and as such should have a robust social mission and duty to serve.

Finally, we look forward to reviewing with interest NAAHL's ideas on how further clarification by financial regulators on recent CRA guidance might expand bank financing of affordable rental housing and increase economic opportunity for low-income people and communities.

We welcome these and additional ideas from all of you on the most effective ways of strengthening the housing finance system, expanding the supply of affordable rental housing, and improving access to credit, and will remain engaged with stakeholders whose experiences and insights we highly value.

Thank you.