ISSUE: Protect Funding of the National Housing Trust Fund and Capital Magnet Fund Even as the Enterprises Remain in Conservatorship

After the Enterprises were placed in conservatorship in 2008, former Federal Housing Finance Agency (FHFA) Director Edward DeMarco suspended the allocation of funds to the National Housing Trust Fund (NHTF) and the Capital Magnet Fund (CMF). On December 11, 2014, current FHFA Director Melvin L. Watt lifted the suspension, and directed the Enterprises to begin setting aside and allocating funds to the NHTF and the CMF.[30] In May 2016, HUD allocated $174 million through the NHTF[31] and in September the CDFI Fund awarded $91.5 million in CMF grants.[32]

The NHTF and the CMF were both created by Housing and Economic Recovery Act of 2008 (HERA) to increase affordable housing opportunities and promote community development investments for underserved and distressed communities, consistent with safety and soundness.[33] The law requires the Enterprises to set aside 4.2 basis points for each dollar of unpaid principal balance on total new loan purchases, which are then allocated to the two funds.[34]

Following Director Watt's decision to fund the NHTF and the CMF in 2014, critics in Congress attempted to block funding for the NHTF.

FHFA's Duty to Serve Rule: Under the 2008 HERA law, the Enterprises also have a Duty to Serve three underserved markets: manufactured housing, affordable housing preservation and rural housing. Unlike the affordable housing goals, the law prohibits the Enterprises from setting loan purchase goals or designating a specific percentage of their business to comply with their Duty to Serve.[35] However, the rule requires them to purchase loans, develop loan products, conduct outreach and/or make investments in the three markets to receive Duty to Serve credit. In December 2016, FHFA finalized its Duty to Serve rule and in April 2017 each of the Enterprises will submit Underserved Market Plans that propose activities they will undertake to receive Duty to Serve credit in each of the three markets. Those plans will be available for public comment. In addition, public comments on FHFA's Duty to Serve *Evaluation Guide* are due in May of 2017. The guide will determine how the Enterprises are scored on their performance under their Underserved Market Plans.

Who Can Act:

The U.S. Congress, the Federal Housing Finance Agency (FHFA) and the U.S. Department of the Treasury

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30 "FHFA Statement on the Housing Trust Fund and Capital Magnet Fund." December 11, 2014. Retrieved from https://www.fhfa.gov/Media/PublicAffairs/pages/fhfa-statement-on-the-housing-trust-fund-and-capital-magnet-fund.aspx.

31 HUD, *HUD Allocates $174 million through new housing trust fund.* [Press release] (May 4, 2016).

32 HousingWire, *CDFI Fund Awards $91.5 Million in Capital Magnet Funds* (September 22, 2016).

33 Housing and Economic Recovery Act of 2008. July 30, 2008. Retrieved from https://www.gpo.gov/fdsys/pkg/PLAW-110publ289/pdf/PLAW-110publ289.pdf

34 Ibid.

35 12 U.S.C. 4565(d)(2)(C). See more about FHFA's Duty to Serve Program at: https://www.fhfa.gov/duty-to-serve

NCRC's Position:

NCRC continues to oppose any efforts in Congress to defund the NHTF or the CMF through the annual appropriations process. Both Enterprises should also continue to set aside and allocate funds to the NHTF and CMF even as they remain in conservatorship.

FHFA's Duty to Serve in the three underserved markets is an important complement to the Affordable Housing Goals. However, the affordable housing goals are a broader and stronger mandate that ensure low- and moderate-income borrowers and underserved communities have access to conventional mortgage credit. Both the affordable housing goals and the duty to serve must be defended and protected.

FHFA should also take the occasion of the Duty to Serve rule to allow the Enterprises to increase their affordable loan product offerings, improve their pricing for low- and moderate-income borrowers, and improve marketing and outreach to African-American borrowers and other underserved borrowers and markets that are suffering specific setbacks in access to homeownership.

What are Fannie Mae and Freddie Mac?

HISTORY OF THE ENTERPRISES

1938: Fannie Mae is established:

- By amendments to the National Housing Act after the Great Depression as part of Franklin D. Roosevelt's New Deal.
- To provide local banks with liquidity backed by federal funding to finance home mortgages in an attempt to raise homeownership rates and the availability of affordable housing.
- To create a liquid secondary mortgage market and make it possible for banks and loan originators to issue more housing loans.

1970: Freddie Mac is established:

- To provide competition for Fannie Mae.
- To increase the availability of funds to finance mortgages and homeownership.

Fannie Mae and Freddie Mac

- The Enterprises' function is to provide liquidity to the nation's mortgage finance system by:
  - Purchasing home loans made by private lenders (provided the loans meet strict size, credit, and underwriting standards).
  - Packaging loans into mortgage-backed securities.
  - Guaranteeing the timely payment of principal and interest on those securities to Wall Street investors.

1992:

- Federal law is amended to require the establishment of broad affordable housing goals for each of the Enterprises.

2008:

- The Enterprises are reformed by the Housing and Economic Recovery Act (HERA).
- The newly created Federal Housing Finance Agency (FHFA) used its authority under HERA to place the Enterprises into conservatorship.

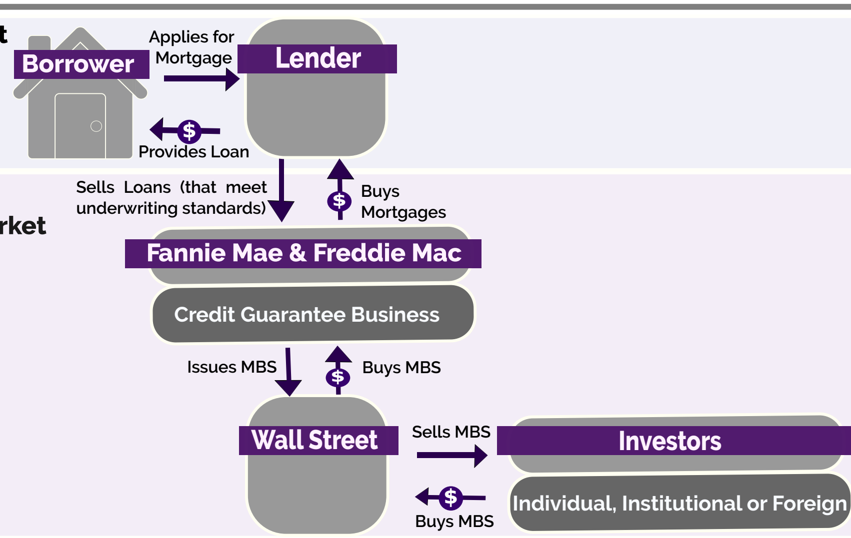
MORTGAGE MARKET ORIGINATION MECHANICS

Primary Mortgage Market

Financial institutions provide mortgage loans to homebuyers.

Secondary Mortgage Market

Existing mortgages and mortgage-backed securities (MBS) are traded.



The Enterprises are critical players in the housing finance system. Approximately 80% of new mortgages are backed by some form of government guarantee.