NCSHA

National Council *of*
State Housing Agencies

April 28, 2020

MEMORANDUM

TO: Interested Parties

FR: NCSHA Staff

RE: State Housing Finance Agency Federal Policy Priorities in Response to COVID-19

Executive Summary

This memorandum summarizes NCSHA's federal policy agenda related to the COVID-19 crisis on behalf of its member state housing finance agencies (HFAs), as of the date above. The first section summarizes our top legislative priorities for forthcoming federal stimulus legislation. The second section summarizes our priorities for federal policy and regulatory action.

Top Priorities for Federal Stimulus Legislation

Emergency Rental Assistance

An estimated three-quarters of renters are not covered by the CARES Act's temporary prohibition against evictions for failure to pay rent. The most vulnerable renters, who have been heavily impacted by job losses already, have a combined monthly rental payment of more than $20 billion. NCSHA supports an emergency appropriation of $100 billion through one or more existing federal programs with flexibility for state HFAs — most of which run at least one statewide rental assistance program already — and other entities that administer the funds to meet the most urgent renter needs in their states.

Homeownership Assistance Fund

NCSHA is advocating for the "Housing Assistance Fund" as proposed by Senators Reed (D-RI) and Brown (D-OH) and Representative Scott (D-GA). The bill would provide $75 billion to state HFAs to help avoid anticipated widespread housing hardship, including foreclosures and evictions, in the months ahead. HFAs would use the funds to help struggling households remain in their homes while they search for new jobs or wait to be called back to work. Financial assistance could go toward mortgage payments; utility payments; and other support to prevent eviction, delinquency, default, foreclosure, or loss of utility services.

Housing Credit Expansions and Improvements

As co-chair of the ACTION Campaign, NCSHA is asking Congress to enact parts of the Affordable Housing Credit Improvement Act — which has the support of nearly half the Senate and more than half of House members — that are directly responsive to the rental housing needs of the COVID-19 crisis (*link to ACTION priorities forthcoming*). NCSHA also supports lowering the "50 percent test" with respect to tax-exempt bond financing for Housing Credit developments (*link to summary of NCSHA-commissioned analysis by Novogradac & Company forthcoming*).

Tax-Exempt Bond Flexibility and Single-Family Bond Improvements

NCSHA supports providing states greater flexibility in the use of their tax-exempt Private Activity Bond authority to help them better respond to rapidly changing needs due to COVID-19. In addition, NCSHA is advocating modifications to the Mortgage Revenue Bond and Mortgage Credit Certificate programs so that they will be more effective in helping homeowners and homebuyers during and after the pandemic.

Supplemental HOME Block Grant Funding

NCSHA is asking Congress to provide a substantial one-time increase to the HOME Investment Partnerships (HOME) program to help states and localities meet affordable housing needs that are not otherwise met by other assistance. HOME is an extremely flexible funding source, which can be used for rental housing production and homeowner and home buyer assistance, as well as tenant-based rental assistance. Supplemental HOME funding will help fill financing gaps for affordable rental developments, in the event Housing Credit equity pricing suffers due to economic conditions.

Top Priorities for Federal Policy and Regulatory Action

Single-Family Servicer Liquidity

State HFAs are among the mortgage servicers facing liquidity shortfalls as a result of forbearance policies established by the CARES Act. Millions of lower-income borrowers will not be able to make up back payments when they come due. Recent steps by Ginnie Mae and the Federal Housing Finance Agency (FHFA) do very little to address these problems. While the Ginnie program provides partial liquidity, it does not cover advances of taxes and insurance and is available only as a "last resort." FHFA's directive to the GSEs provides only partial liquidity as well.

NCSHA has developed a proposed Federal Reserve loan program to cover shortfalls in monthly payments otherwise owed by owners during the emergency. The proposal would utilize authorities already provided to Treasury and the Fed in the CARES Act to enable approximately eight million low- and moderate-income homeowners avoid default on their mortgages despite layoffs and unemployment. (It would also provide similar protections to 13 million renters, as described below.)

In addition, Ginnie Mae and FHFA have the ability to waive or modify loan buyback, delinquency ratio, and other securities requirements that were never envisioned to apply in an economic and housing market environment like this one. NCSHA has provided detailed recommendations for addressing these issues to Ginnie Mae and FHFA.

Single-Family Loan Liquidity

CARES Act forbearance policies are hurting new mortgage lending because FHFA and Ginnie Mae rules generally prevent loans in forbearance from being securitized or otherwise sold. This forces HFAs, like many other originators, to hold loans, tying up their credit and curtailing their ability to fund new affordable home loan originations through their bank partners.

The aforementioned FHFA directive enables Fannie and Freddie to purchase some loans closed before homeowner forbearance requests necessitated by the pandemic and authorized in the CARES Act. Yet the GSE outlet is only available for punitive additional fees ("loan-level price adjustments") that will fall on HFAs, their lender partners, and consumers. This excessive pricing will likely further narrow homeownership opportunity for working families and borrowers of color and create an additional drag on the housing market.

Multifamily Property and Servicer Liquidity

Affordable multifamily rental apartments are facing imminent financial needs exacerbated by forbearance policies benefitting their renters. Many property owners will soon struggle to maintain properties, pay utilities, and meet the requirements of their lenders and investors. Such financial shortfalls pose risks to low-income residents, along with the properties' capital providers, including state HFAs. And when forbearance periods end, renters will still owe all their back rent, a "crushing burden" for most.

In addition to the emergency rental assistance and Housing Credit legislative proposals summarized above, NCSHA's proposed Federal Reserve Loan program would enable more than 13 million low- and moderate-income renters to remain in their units and avoid rent arrearages they will not be able to make up after any rent forbearance.

Housing Bond Liquidity

Shocks to the U.S. capital markets in March severely disrupted the municipal bond markets, limiting the ability of HFAs to deliver tax-exempt Housing Bond financing. Actions by the Federal Reserve have helped stabilize the market and several HFAs have issued housing bonds recently. More Fed action may be needed in the future, however, to ensure Housing Bonds remain a viable resource for the recovery ahead.

NCSHA is recommending that the Federal Reserve and Treasury Department expedite implementation of CARES Act authority to strengthen tax-exempt Housing Bonds. NCSHA has also developed a concept for Treasury-Fed action to provide additional liquidity, using existing authorities and based on a highly successful initiative created during the financial crisis.

FHA-HFA Multifamily Risk-Sharing Lending

Robust multifamily lending is necessary to provide desperately needed affordable housing and foster economic recovery in many areas throughout the country. The Federal Housing Agency (FHA) – Housing Finance Agency (HFA) Multifamily Risk-Sharing program has a proven track record in increasing affordable housing production and preservation. Using Risk-Sharing, 37 HFAs have financed more than 1,617 loans, supporting almost 200,000 affordable rental homes.

The capacity of this program to respond to current needs is severely limited by the lack of investment support providing the capital needed for increased lending. Congress and the Trump Administration could address this problem directly and effectively by reviving the Federal Financing Bank (FFB) Risk-Sharing loan financing initiative or by allowing Ginnie Mae to securitize Risk-Sharing loans. Either alternative would lower borrowing costs, allowing HFAs to pass on these savings to borrowers and tenants, while generating net revenue for the federal government.

Regulatory Clarity and Relief for State HFA Program Administrators

State HFAs are the primary state administrators of a wide range of federal housing and community development programs regulated by numerous federal agencies. Public health directives from all levels of government — including state policies that affect agency staff — and rapidly worsening economic conditions have made it difficult, if not impossible, for state HFAs to meet many program requirements. To their credit, federal agencies have been issuing guidance providing relief in a number of areas.

NCSHA has developed detailed recommendations for regulatory clarity and relief from Treasury and the IRS with respect to the Housing Credit program and from HUD with respect to the HOME housing block grant, Housing Trust Fund, and Emergency Solutions Grant programs. HUD recently announced wide-ranging regulatory relief in response to NCSHA's HOME recommendations. NCSHA is also assisting state HFAs that have remaining resources in their Hardest Hit Fund programs to secure flexibility from the Treasury Department to ensure the money can be most responsive to state COVID-19 housing needs.