Roll Call

Republicans pressed to block Obama housing actions

By Ben Weyl

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WASHINGTON—Add affordable housing to President Barack Obama's list of unilateral actions on which he's flexing his muscles at an unfriendly Congress.

The administration's steps to expand mortgage lending and promote affordable housing may not have drawn the kind of attention that his actions on immigration have, but they have infuriated GOP lawmakers already feverishly trying to block the earlier actions.

As with the president's other orders, however, Republicans' options are limited. They lack a filibuster-proof majority in the Senate, let alone the votes to overturn a presidential veto of legislative obstacles. So the executive branch is moving forward.

At stake is whether the administration can unleash additional credit to a mortgage market many housing analysts view as too tight. But Republicans are warning that Obama is going too far, setting the stage for the reckless lending and subsequent housing crash that fueled the 2008 financial crisis.

Obama announced last month the Federal Housing Administration would lower its annual mortgage insurance premiums by 0.5 percentage points, to 0.85 percent from 1.35 percent. The White House says the move would save new borrowers roughly $900 per year and bring in new homebuyers to boost the housing market.

Roughly 234,000 creditworthy borrowers were priced out of the market in 2014 because of high FHA insurance premiums, according to the National Association of Realtors. The lower premiums would likely help first-time homebuyers and historically under-served borrowers such as low-income and minority purchasers.

Meantime, the Federal Housing Finance Agency said in December it would direct Fannie Mae and Freddie Mac to start sending money to the National Housing Trust Fund and the Capital Magnet Fund, two currently empty trust funds designed to promote affordable rental housing and lending for homeownership. The funds would receive 0.042 percent of the mortgage giants' new business. Housing activists estimate that would bring $300 million to $700 million to the funds annually.

Those steps followed FHFA Director Melvin Watt's announcement in October that Fannie and Freddie, which the FHFA oversees, would guarantee some mortgages with just 3 percent down payments, a reduction from 5 percent, in a bid to boost access to credit for low-income borrowers. The move is intended to help creditworthy borrowers who don't have the savings to put down a lot of money up front. Watt said recently those loans would comprise "a very, very small percentage of the overall portfolio."

Congressional Republicans condemn all three moves, saying they would put taxpayer dollars at risk and encourage a new wave of irresponsible lending.

"Memories are clearly short among Washington's ruling class, because they are repeating the same mistakes that caused the 2008 financial crisis in the first place," said House Financial Services Committee Chairman Jeb Hensarling, R-Texas.

GOP lawmakers say the FHA shouldn't lower premiums when its mortgage insurance fund still lacks the capital reserves required by law. They note Treasury gave the agency a $1.7 billion taxpayer-infusion in 2013, the first such payment in FHA's 80-year history. Republicans also point out Fannie and Freddie took $187.5 billion in public funds in 2008 and remain in government hands. They say the revenue should go to taxpayers, not to affordable housing, and argue that lowering the down payments on Fannie- and Freddie-backed mortgages encourages the kind of loans that went bad in 2007 and 2008.

The administration, which is strongly backed by the housing industry and housing activists, doesn't sound worried.

Julian Castro, secretary of the Housing and Urban Development Department, which houses the FHA, says the agency's insurance fund is back in the black and FHA is still projected to reach its required 2 percent capital reserve ratio in 2016.

Watt, a Democrat backed by his former colleagues in Congress, said Fannie and Freddie should start sending the trust funds money now that the companies are healthier and have sent back billions more to Treasury than they accepted. And Watt rejects the charge of shoddy lending, noting borrowers would have to abide by guidelines to reduce the risk of default, including having stronger credit histories, lower debt-to-income ratios and extra private mortgage insurance.

Republicans have a slim chance of success of blocking the initiatives, but they have several legislative avenues to obstruct the administration.

The most potent would be to reverse the policies through the appropriations process.

Raising FHA premiums in spending bills is “certainly doable,” said Mark Calabria, a former GOP Senate Banking Committee aide and now director of financial regulation studies at the libertarian Cato Institute.

The FHA relies on congressional appropriations, but lawmakers’ next chance likely won’t come before the fall, when fiscal 2015 funding expires. The agency could have been applying the lower premiums for nine months by then. And Democrats in the Senate and White House would resist forcing the premiums up in the next fiscal year.

Reversing policies by the FHFA could prove even harder. An independent agency that acts as regulator and conservator of Fannie and Freddie, the FHFA doesn’t receive funds from Congress. Lawmakers typically steer clear of restricting the activities of independent agencies in spending bills.

Republicans also could try to advance legislation targeting the administration’s housing initiatives. They are likely to encounter the same Democratic resistance in the Senate, but the GOP is already trying.

(EDITORS: STORY CAN END HERE)

Rep. Ed Royce, R-Calif., a senior member of the Financial Services Committee, is drawing up a bill (HR 574) to prohibit Fannie and Freddie from filling the affordable housing trust fund. GOP lawmakers also could try to advance broader measures targeting the FHA and Fannie and Freddie. Hensarling moved legislation in the last Congress to sharply restrict the FHA’s lending powers and wind down Fannie and Freddie.

GOP critics are also using their bully pulpit to publicly criticize the administration and are calling Castro and Watt to explain themselves.

Watt came under fierce criticism from Republicans when he testified at the Senate Banking Committee in November.

Hensarling also announced he would call Castro to testify before the committee and defend the premium reduction, which he called “a grave mistake.” Hensarling has demanded documents from Castro about the department’s justification of the premium reduction after taking funds from Treasury in 2013.

“They’ll really try to strip the bark off him in terms of FHA’s previous risk management practices,” said one housing industry lobbyist.

Calabria said raising pressure on the administration through statements, letters and tough oversight hearings would be a constant under the Republican-led Congress.

“Obviously the impact of these things is small, but it isn’t zero,” he said.