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Housing advocates surprisingly upbeat on FHFA nominee

Hannah Lang

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Washington — Senate Democrats have given a thumbs down to the Trump administration's nominee to run the Federal Housing Finance Agency, citing concerns that he would undo protections for low- to moderate-income borrowers. Yet in a twist, some affordable housing advocates are cautiously optimistic about the pick.

Some advocates reacted positively to Mark Calabria's testimony at his nomination hearing before the Senate Banking Committee, where he pledged to maintain the 30-year fixed mortgage. He has notably criticized technical aspects of Fannie Mae and Freddie Mac requirements to support affordable housing, but at the hearing he appeared to support keeping affordable housing funds available.

"When he spoke before the committee and he was clear about not doing anything that would disrupt the housing economy or these funds, I took him at his word," said David Dworkin, the president and CEO of the National Housing Conference. "I think it's a product of his evolving understanding of the complexities of the market and the importance of these policies."

Calabria, an administration aide whose nomination cleared the committee along party lines last month, is known for having questioned the government's role in the housing market in past policy positions. While at the Cato Institute, he pushed for the elimination of the 30-year, fixed-rate mortgage and was critical of Fannie Mae and Freddie Mac's affordable housing goals, yearly benchmarks for the government-sponsored enterprises to back mortgages for low-income people.

But at his nomination hearing, he said he would "absolutely" maintain the 30-year mortgage as well as strong affordable housing goals. He also said he would continue to fund the Capital Magnet Fund and the Housing Trust Fund, which consist of Fannie and Freddie revenue that can be used for affordable housing ventures.

Calabria said he opposed the current status quo, in which Fannie and Freddie have taken a capital hit while in conservatorship, but that does not mean he opposes affordable housing provisions as part of a sounder housing finance system.

"My concern about the affordable housing goals in the past have taken place in the context of two large institutions with essentially zero capital," Calabria said at his Feb. 14 hearing. "I do believe we can get to a spot where we can have risk-taking via affordable housing goals if we can have an appropriate regulatory structure that has capital backing those goals."

Many Democrats and advocates say they will not support any GSE reform plans that eliminate the affordable housing provisions, and concerns about the fate of affordable housing policy could explain why Calabria lacks Democratic support.

But some housing groups are confident that Calabria recognizes the importance of affordable housing going forward.

Dworkin said it is possible that Calabria's views have become less stringent as he gets closer to a position that wields significant influence over the housing sphere.

“Most people in policymaking positions like this one that are so tightly tied to such a large part of the economy realize very quickly that the law of unintended consequences is never repealed, and so it’s important to have a degree of caution that is not required when you’re writing articles or papers,” he said.

Dave Borsos, the vice president of capital markets at the National Multifamily Housing Council, said Calabria's criticism of components of the affordable housing provisions — and how they might add risk — is different than criticizing affordable housing in general.

Calabria is known for having fiery articles, including a 2012 blog post referring to homeowners receiving principal reductions as “deadbeats.” But Borsos said there is no reason to think those viewpoints would influence him as director of FHFA.

“While he may not be in favor of specific affordable housing goals in some of his past writings, if you read through some of that, it doesn’t necessarily mean that he wasn’t in favor of supporting affordable housing in some fashion,” he said. “I think that his issue is more mandate-based and critical of that aspect of affordable housing.”

Some in the housing industry are more eagerly anticipating Calabria’s confirmation. The Manufactured Housing Institute — an organization that represents affordable factory-built housing — has submitted a letter to Senate Majority Leader Mitch McConnell, R-Ky., and Senate Minority Leader Chuck Schumer, D-N.Y., urging Calabria’s immediate confirmation.

“Mark Calabria’s history on manufactured housing is something that we’re really excited about,” said Lesli Gooch, the executive vice president of MHI. “[He is] someone that recognizes what manufactured housing is and how we can be a solution to the affordable housing shortage and the supply shortages that we face.”

Others pushing for housing opportunities for lower-income borrowers are less sure.

Doug Ryan, the director of affordable homeownership at Prosperity Now, said while there is no “reason to question his integrity at the confirmation hearing,” Calabria has still made his ideology clear.

“He is predisposed to allowing Fannie and Freddie to pull back, and by pulling back, that means being less supportive of communities of color, low-to-moderate income homeowners, assisted housing projects and refinance, the whole range of things,” he said.

While the Democrats on the Banking Committee likely appreciated Calabria’s promises to uphold the elements of the GSEs that allow for affordable housing, they probably weren’t entirely convinced, said Ryan.

“I think fundamentally, you should be called into account on your past written and spoken record and I think that’s where the Democrats landed,” he said. “Compared to a lot of nominees that this administration has put forward in all various areas, he had a written record.”

Yet others have taken comfort in Calabria's record. For example, as a former aide to Sen. Richard Shelby, R-Ala., he helped author the 2008 Housing Economic and Recovery Act that included the "duty to serve" provision requiring Fannie and Freddie to facilitate a secondary mortgage market for low- and moderate-income families.

"Having the author of the 'duty to serve' be serving in that position at FHFA, we don't think is a bad thing," said Gooch.

The mortgage industry has generally accepted that one of Calabria's top priorities as director will likely be allowing Fannie and Freddie to hold more capital, which Sen. Mark Warner, D-Va., expressed concern about during Calabria's hearing.

"I guess one of the concerns I have is if we go to ... bank-like capital requirements, that that's going to dramatically increase the cost of borrowing, particularly for low-income borrowers, borrowers of color or others," he said.

Recapitalizing the GSEs would undoubtedly have an effect on mortgage pricing, said both Dworkin and Ryan.

"I do believe that if you capitalize to the extreme ... that would jeopardize lending for low-and moderate-income homeowners and communities," said Ryan. "I think that's absolutely right, because that's where that money is going to come from to some degree."

However, if Fannie and Freddie are undercapitalized, that would actually pose a much bigger risk to lower-income borrowers, said Dworkin. Currently, the GSEs are only permitted to keep \$3 billion worth of capital each and are required to direct the rest of their profits to the Treasury Department.

"It's much worse if you don't have enough capital than if you have too much," said Dworkin. "I think that Sen. Warner's concerns are absolutely valid, but we have to measure them carefully against the capital needs of the institutions, not when times are good, but when times are bad."

With a smaller capital cushion, Fannie and Freddie would also likely pull back on pilot programs established under former FHFA Director Mel Watt to address specific affordable housing needs, such as help for millennials plagued with student debt. Ryan noted that Calabria could just end those programs if he saw fit.

"There are going to be pilots and pilot demonstrations that are going to come out of Fannie and Freddie, and he has the right to say no to those, and that would be in compliance with the statute," said Ryan. "That is a concern to me."

Still, Borsos and others view Calabria's assurances that he would preserve components of the housing finance system that work for low- and moderate-income families as a positive.

"In a public hearing on record, he actually acknowledged that he was supportive of those various things and he acknowledged that he may have written those things in the past, but that wasn't as a director," said Borsos.