NATIONAL LOW INCOME
HOUSING COALITION

www. nlihc.org
*Dedicated solely to achieving socially just public policy that assures with the lowest incomes in the United States have affordable and decent homes*
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January 5, 2018

The Honorable Mel Watt
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

To Director Watt:

On behalf of the National Low Income Housing Coalition (NLIHC), I write to express our deep appreciation for the actions you have taken in your role as Director to support the national Housing Trust Fund (HTF) and to urge you to protect this critically needed resource in 2018. By significantly reducing the value of tax-deferred assets, the recently enacted *Tax Cuts and Jobs Act* is expected to cause Fannie Mae and Freddie Mac (the Enterprises) to need an advance from the U.S. Department of the Treasury. This event – unforeseen at the time in which Congress created the Housing Trust Fund and in which FHFA developed its governing policy – could lead to the re-suspension of this vital program. Given the unique circumstances and the severe shortage of affordable rental homes for extremely low income families, I urge you to reconsider FHFA policy to continue to allow Enterprise contributions to the HTF.

Since FHFA's decision to lift the suspension of Enterprise contributions to the HTF, nearly $400 million has been allocated to the states to help them address the housing needs of people with the greatest needs, including seniors, people with disabilities, families with children, and people experiencing homelessness, among others. This is an important first step, given the severe shortage of 7.4 million rental homes affordable and available to families with extremely low incomes. NLIHC research finds that for every 100 of the lowest income people, there are just 35 affordable homes available to them. Given the tremendous need, NLIHC is working to expand the vital HTF – through housing finance reform and other legislative avenues – to help it reach more people in need of affordable, accessible homes.

Continued contributions to the HTF, however, are at risk due to the recent passage of the *Tax Cuts and Jobs Act*. The significant decrease in the corporate tax rate from 35% to 21% will effectively reduce the value of tax deferred assets owned by the Enterprises. As a result, the Enterprises are now expected to need an advance from Treasury in the first quarter of 2018. We commend the recent action taken by FHFA and Treasury to allow the Enterprises to maintain a small capital buffer to help ensure that small fluctuations in the future will not disrupt the Enterprises from carrying out their obligations, including their contributions to the HTF. This change, however, will likely not be sufficient to avoid a draw.

We believe that these unique circumstances should not trigger the suspension of payments to the HTF under FHFA's current policy, which was established without the impact of tax reform in mind. Congress created the HTF, and FHFA developed its policy regarding HTF contributions, well before any significant discussion of tax reform legislation and its possible impacts.

Moreover, the authorizing statute and FHFA policy are aimed at ensuring the financial stability of the Enterprises – which is not at issue under these circumstances. The Enterprises are financially stable. Fannie Mae and Freddie Mac received $187 billion in Treasury funds during the financial crisis, but have made more than $279 billion in payments to the Treasury since that time. Moreover, the lack of a capital buffer is a result of compliance with the Preferred Stock Purchase Agreement and should not necessarily be seen as an indication of financial instability. For these reasons, contributions to the HTF should be continued.

We also encourage you to reconsider FHFA's current policy to suspend contributions to the HTF if there is a Treasury advance in any quarter. This is unduly restrictive and would lead to fewer affordable housing resources for the lowest income people at a time when there is tremendous unmet need. Instead, we urge you to ensure that a suspension only takes place if there is a net loss for the Enterprise for the entire year, and not for any particular quarter.

Thank you for your support of the HTF and your consideration of these suggestions. I would welcome the opportunity to meet with you and your staff to discuss this important issue in more detail. NLIHC's Policy Director, Sarah Mickelson, will follow up with your office shortly to find a time that works for your schedule.

Sincerely,

Diane Yentel

Diane Yentel
President and CEO