



# Making the Mortgage Market Work for America's Families

Presented by the Center for American Progress and the National Council of La Raza June 5, 2013



# Making the Mortgage Market Work for America's Families

Presented by the Center for American Progress and the National Council of La Raza  
June 5, 2013

# Contents

- 1 Acknowledgements**
- 2 Introduction and summary**
- 5 The need for increased access to affordable homeownership**
- 13 The secondary mortgage market's role in supporting access and affordability**
- 16 Rental housing's connection to the secondary mortgage market**
- 19 The Market Access Fund**
- 23 Strategic plans and evaluation**
- 27 Conclusion**
- 28 Endnotes**

---

## Acknowledgements

This report was the product of a unique, year-long collaboration among the broad range of civil-rights and housing organizations listed below:

- Center for Responsible Lending
- Consumer Federation of America
- Enterprise Community Partners
- The Greenlining Institute
- Kirwan Institute for the Study of Race and Ethnicity
- The Leadership Conference on Civil and Human Rights
- NAACP
- National Coalition for Asian Pacific American Community Development
- National Community Reinvestment Coalition
- National Fair Housing Alliance
- National Housing Conference
- National Housing Resource Center
- National Housing Trust
- National Urban League
- The Opportunity Agenda
- Poverty & Race Research Action Council
- Reinvestment Partners

Members of these organizations participated in an extensive series of discussions to develop and refine the ideas presented here.

We would like to thank the primary drafters for their hard work and research:

- José Garcia, former Policy Fellow, National Council of La Raza
- Ethan Handelman, Vice President for Policy and Advocacy, National Housing Conference
- Janneke Ratcliffe, Executive Director of the UNC Center for Community Capital and Senior Fellow at the Center for American Progress
- Christy Rogers, Director of Outreach, Kirwan Institute for the Study of Race and Ethnicity
- Ellen Seidman, Senior Fellow, Urban Institute
- Josh Silver, Vice President of Research and Policy, National Community Reinvestment Coalition

We also would like to thank Loren Berlin for her thoughtful editing and advice, as well as both The Opportunity Agenda and the Mortgage Finance Working Group (a group of housing-finance experts convened by the Center for American Progress), whose staff and members provided invaluable feedback and support.

Last but not least, we would like to thank the Ford Foundation and Open Society Foundations for making this collaboration and report possible.

Janis Bowdler  
Director of Economic Policy, National Council of La Raza

Julia Gordon  
Director of Housing Finance and Policy, Center for American Progress

# Introduction and summary

America's housing-finance system stands at a crossroads. We can restructure the mortgage-finance system to restore balance to the housing market and provide credit to a broad and diverse population, or we can live with a system in which credit and housing choices are more costly, more limited, and less sustainable, especially for minority and low- and moderate-income households. The choice we make will determine not only the sustainability of a robust housing market, but also future economic opportunities for millions of families.

In 2008 our financial system failed spectacularly; taxpayers bailed it out, but at great cost. Going forward, some measure of continued government support for mortgages as well as for banks and other financial institutions seems extremely likely, either in the form of an explicit guarantee or another bailout if the system fails again. In return for backstopping the mortgage market and financial institutions, taxpayers deserve a market that serves the long-term interests of families and the economy as a whole.

Most people think of mortgage lenders as the point of intersection with the public. However, the less transparent but very large secondary mortgage market—which buys mortgages, packages them into securities, and sells them to investors—plays a critical role in ensuring access and affordability within the housing-finance system. Lenders prefer to make the types of mortgage loans that the secondary market will buy. For this reason, one of the most effective ways to ensure a broad, accessible, and affordable primary mortgage market is by creating a secondary market that promotes these same principles.

Using a range of possible tools, the secondary market can encourage lenders to provide all Americans access to safe, affordable mortgages, including traditionally underserved populations such as Hispanics, African Americans, rural residents, low- and moderate-income families, Asians, Baby Boomers, and Echo Boomers. It can also help increase access and affordability by supporting standardization and lowered costs and by adopting responsible, targeted product innovations that can be made widely available throughout the mortgage market.

Section 1 of this report, “The need for increased access to affordable homeownership,” discusses the importance of homeownership and the housing finance system to strong families, neighborhoods, and the overall economy. The United States has a long history of unequal access to sustainable, affordable mortgages, particularly for minority and low- and moderate-income communities. Lack of equal access to mortgage credit can be explained by a variety of factors, including not only traditional discrimination but also the failure of mortgage lenders to serve geographies and populations that they may see as less lucrative (known as market creaming). This difference in access to credit contributes to the nation’s unprecedented wealth gap despite government efforts to improve access. For this reason, it is critical to redesign the system to account for shifting demographics and changing consumer profiles, including the rapid growth of communities of color, decreased economic security, and increasing demand among rural Americans.

Section 2, “The secondary mortgage market’s role in supporting access and affordability,” reviews the secondary mortgage market’s ability to influence the primary market and improve access to mortgage credit for a broader population of potential homeowners. The secondary market’s willingness to purchase select loan products, as well as its policies regarding pricing, underwriting, documentation, capital reserves, and repurchases, can either encourage the primary market to or discourage it from extending credit to underserved populations. Leveraging this influence to improve access will not only increase opportunities for affordable homeownership but also create new business opportunities for the primary market.

Section 3, “Rental housing’s connection to the secondary mortgage market,” discusses the role of the secondary market in ensuring adequate financing for the development of affordable rental housing. The government-sponsored enterprises, or GSEs, and the Federal Housing Administration have a long history of supporting the principles of access and affordability in the rental-housing context. In fact, during the 2008 financial crisis, when private capital retreated nationwide, government-supported channels, especially the GSEs, were virtually the only sources of capital for financing any rental housing at all. For this reason, proposals regarding the future of housing finance must include consideration of multifamily finance as well as single-family finance.

Section 4, “The Market Access Fund,” outlines the importance of promoting safe product innovation as a way to increase access. Many potential homeowners who were once thought to be unacceptable risks because of low wealth, unconventional employment, or lack of traditional credit have been successfully served by the

housing-finance system through careful underwriting and targeted lending programs that use limited amounts of credit enhancement. We recommend establishing a Market Access Fund to support the type of innovations that have proved so successful in the past and, when appropriate, bring to scale new lending products and services best suited to the needs of these borrowers.

Section 5, “Strategic plans and evaluation,” details the need for effective oversight of the secondary market to ensure that the public benefits of a taxpayer-backed system are widely available. The market regulator(s), for example, can increase access to affordable, sustainable credit by identifying market gaps, elevating promising products, and halting predatory or discriminatory activity. We outline one possible strategy for robust regulation that relies on market analyses, strategic plans, and public input to monitor performance of secondary market entities, both broadly and in regard to reaching underserved markets.

In short, we believe it is possible to design a housing-finance system that effectively meets America’s housing needs, as long as we are intentional and thoughtful about doing so. By supporting these core values of access and affordability, the housing-finance system can help provide access to credit, enable families to build wealth, build strong neighborhoods, and support both the local and national economy.

# The need for increased access to affordable homeownership

---

## Government support for homeownership: Crucial but not equally distributed

For generations, affordable homeownership has provided a primary means for families to climb the economic ladder and achieve financial stability. Homeownership results in a host of positive externalities both for families and for their neighborhoods, ranging from better health and education outcomes to safer streets and more small-business development.<sup>1</sup> What's more, in addition to providing shelter, stability, and a means to build assets, a broad, robust housing market is one of the most powerful tools to boost the national economy.

In recognition of this vital public good, the government supports homeownership through federal mortgage insurance and guarantee programs, including those of the Federal Housing Administration, or FHA; the U.S. Department of Veterans Affairs, or VA; the U.S. Department of Agriculture, or USDA; and the government-sponsored enterprises, or GSEs. The government has further encouraged homeownership through the mortgage interest deduction and capital-gains tax exclusions.

The government chooses to invest billions of federal dollars into homeownership because safe, affordable housing provides security to individual families and strengthens communities. For many Americans, especially those with limited opportunities to establish a financial foundation, homeownership is a path to achieve more economic stability. Homeownership can buffer a family against rising housing costs and help prevent poverty after retirement.<sup>2</sup> Additionally, a robust housing industry helps fuel national economic prosperity both as an asset-building strategy and by creating jobs.

Unfortunately, some of the government programs, such as the mortgage interest deduction, disproportionately help those who least need it. Seventy-seven percent of the mortgage interest deductions claimed in 2012, for example, were



by homeowners with annual incomes greater than \$100,000, while many lower- and middle-income families failed to receive any benefits from the deduction.<sup>3</sup>

Another important lesson from the run-up to the housing-market collapse in 2007 is that creditworthy borrowers often have difficulty obtaining a high-quality mortgage. In some cases, borrowers found themselves in “credit deserts” that left them with few options beyond subprime lenders selling high-risk loans. In other cases, borrowers were offered ample but dangerous credit, becoming the target of aggressive sales tactics aimed at minority, female, rural, and elderly homeowners.

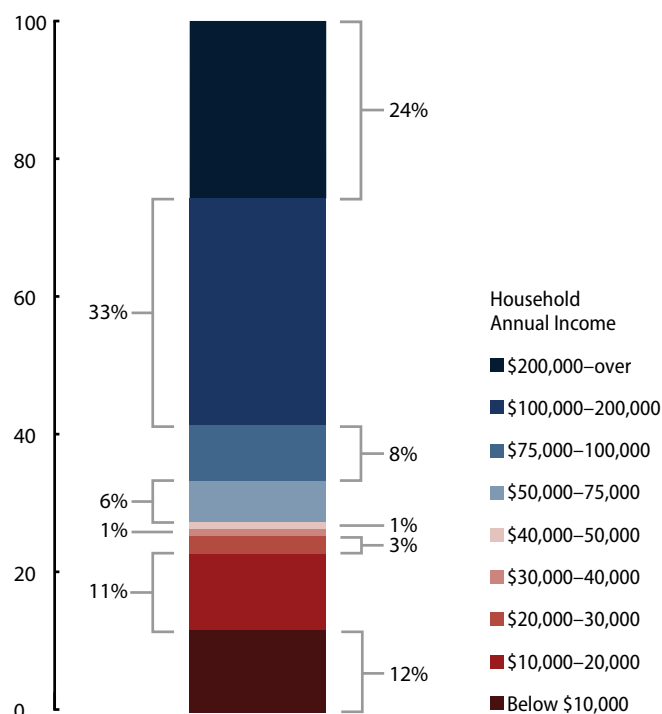
Compounding this disparity, the nation’s history of discrimination and segregation has also limited access to credit for minorities. As Thomas Shapiro, director of Brandeis University’s Institute on Assets and Social Policy, writes:

*Residential segregation by government design has a long legacy in this country and underpins many of the challenges African-American families face in buying homes and increasing equity ... for many years, redlining, discriminatory mortgage-lending, lack of access to credit, and lower incomes have blocked the homeownership path for African-Americans while creating and reinforcing communities segregated by race.<sup>4</sup>*

While Congress has repeatedly tried to eliminate these practices—through the Fair Housing Act of 1968, the Equal Credit Opportunity Act of 1974, and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, among others—minorities continue to have trouble accessing safe and sustainable mortgage credit.

Racial discrimination was particularly rampant in the subprime lending that took place during the run-up to the housing crisis.<sup>5</sup> Lenders offered incentives to loan originators to “steer” certain borrowers or communities to higher-cost products, such as the yield-spread premiums that paid originators more to place

### The majority of government spending on housing benefits higher-income Americans



Source: Center on Budget and Policy Priorities analysis of 2010 Joint Committee on Taxation and Housing and Urban Development data

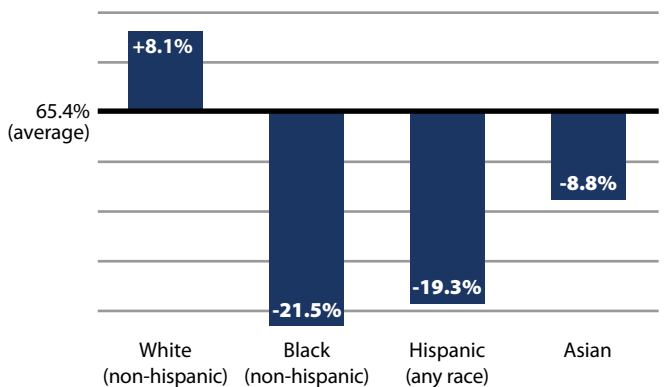
borrowers in higher-cost or riskier mortgages than those for which they qualified.<sup>6</sup> Additionally, different communities or borrowers have generally been served by different financial institutions such as subprime lenders.<sup>7</sup>

As a result, low-income and minority families both face higher costs of borrowing and are more likely to be denied loans. During the subprime lending boom, for example, African Americans with good credit scores were 3.5 times as likely as whites with good credit scores to receive higher-interest-rate loans, and Latinos were 3.1 times as likely; in both cases, about 20 percent of high-FICO, minority borrowers received high-interest-rate loans.<sup>8</sup> Similarly, the Federal Reserve has shown that in 2009 African Americans were twice as likely to be denied a loan, even after controlling for income and other borrower-related features.<sup>9</sup>

Consequently, while the 2012 homeownership rate for whites was 73.6 percent, Hispanic and African American homeownership rates were 46.5 percent and 44.1 percent, respectively.<sup>10</sup> These disparities in homeownership significantly contribute to the dramatic wealth disparities between whites and minorities. A recent study by the Urban Institute revealed the dramatic extent of this wealth gap: In 2010 the average white family had six times as much wealth (\$632,000) as the average black family (\$98,000) or Hispanic family (\$110,000). The report argued that lower homeownership rates and falling home prices were key drivers of this gap.<sup>11</sup>

### There are significant racial disparities in homeownership

Differences between homeownership rate and average homeownership rate, by race



Source: U.S. Census Bureau, 2012 data

### Preparing for the homeowner of the future: Demographic and economic change

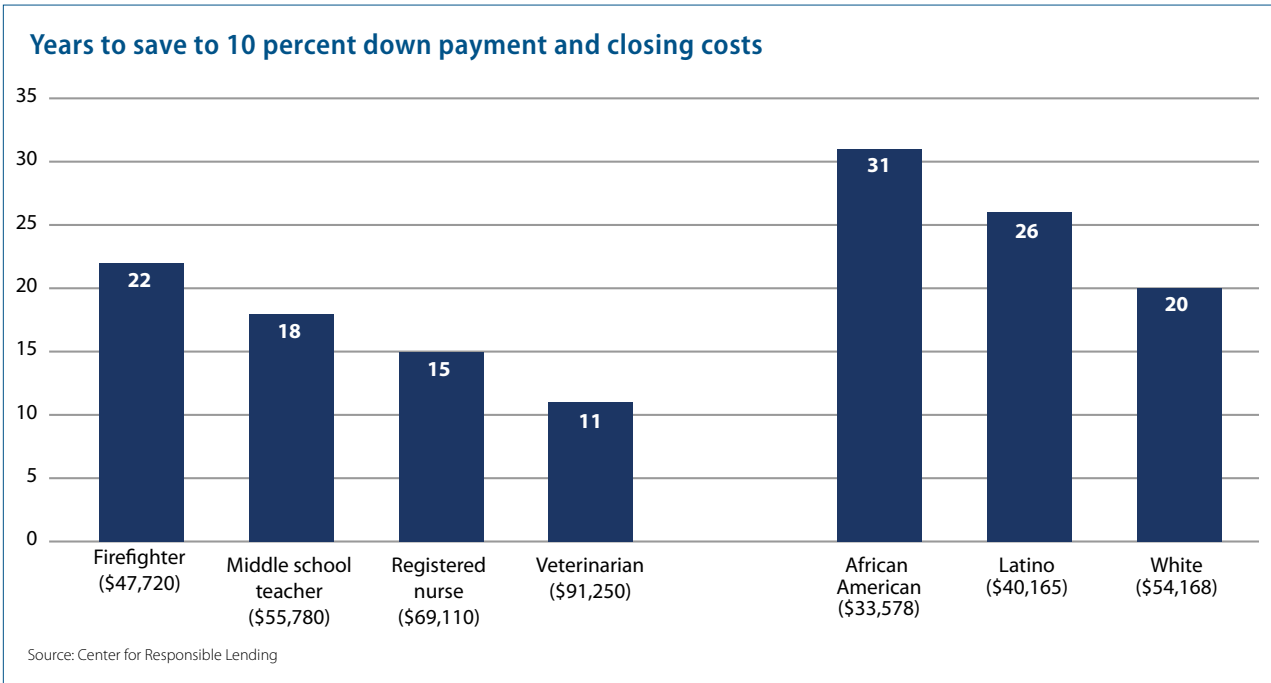
America is changing. As we redesign the housing-finance system, we must be mindful of a new era of changing demographics, shifting consumer profiles and preferences, and new products and regulatory oversight.

Communities of color are growing faster than their white counterparts, indicating that these families will drive housing demand in the future. According to the U.S. Census Bureau, half of the people living in America who are under the age

of 1 are people of color, and by 2042 minorities will be in the majority.<sup>12</sup> Already Hawaii, California, New Mexico, Texas, and the District of Columbia are majority minority.<sup>13</sup> The Joint Center for Housing Studies of Harvard University projects that communities of color will account for more than 70 percent of net household growth between 2010 and 2020.<sup>14</sup> Given the relatively low rates of homeownership among communities of color, this demographic shift creates tremendous opportunity for lenders to expand into new markets.

Future borrowers are also more likely to be less economically secure. They will include the 62 million Millennials as well as the millions of American families dealing with increased income stagnation and job insecurity. In 2010 median American household income adjusted for inflation was \$49,445, roughly the same as in 1989.<sup>15</sup>

Future borrowers will also increasingly be low-wealth borrowers. As a result, the size of the down payment required to obtain a mortgage will be a crucial issue. Large down payments are a significant barrier to homeownership: Even with a 10 percent down-payment requirement, it would take 20 years for the average family to save for a down payment plus closing costs.<sup>16</sup>



Additionally, more future homeowners will come from the 109 million Americans living in rural areas. Rural Americans constitute 34 percent of the U.S. population, and although homeownership rates are higher in rural and small-town communities than the national average, residents still have few choices for accessing mortgage credit. In 2010 approximately 3.8 percent of all home-purchase originations in the United States were classified as high-cost loans.<sup>17</sup> In rural areas, approximately 8.7 percent of all home-purchase originations were high-cost loans, accounting for 35.7 percent of such loans nationwide.<sup>18</sup>

The nation's housing-finance system needs to serve all of these populations. Failing to do so would shrink the market and rob millions of Americans of the opportunity to increase their financial stability through homeownership. While these potential customers present some challenges, they also represent tremendous opportunities for lenders who are able to expand into new markets—and threaten to make irrelevant those who can't.

---

## The (surprising) risk profile of underserved borrowers

Inevitably, among these populations there are many, many people with the capacity to be successful homeowners. That these potential borrowers are unable to access affordable, sustainable mortgages indicates that there is a problem with the current housing-finance system.

Research indicates that low- and moderate-income borrowers and other underserved populations sometimes considered too risky to finance can be high-performing customers when placed in sustainable, affordable mortgages. The UNC Center for Community Capital has analyzed more than 10 years of data on a portfolio of 46,000 loans to low-income homeowners with a median household income of \$30,792, more than half of whom had a credit score less than or equal to 680 at origination. Seventy-two percent of these borrowers made a down payment of less than 5 percent, with a median loan balance of \$79,000 at origination.

Researchers concluded the following in 2012:

*Despite the ostensibly risky profile of [the] borrowers and the turmoil faced by housing markets since 2008, [the] portfolio has performed well, with a serious delinquency rate just 60 percent that of prime adjustable-rate mortgages, less than half that of subprime fixed-rate mortgages and a quarter that of subprime adjustable-rate mortgages.<sup>19</sup>*

The researchers credit the homeowners' successes not only to personal determination but also to the mortgage product itself:

*The lenders involved helped these nontraditional yet creditworthy borrowers buy homes they could afford with mortgages they could manage: long-term, fixed-rate, self-amortizing mortgages underwritten for the ability to repay.<sup>20</sup>*

What's more, this research also demonstrates the viability and profitability of low-down-payment lending when borrowers are given access to safe, sustainable mortgages.

The story of supposedly risky borrowers succeeding in sustainable mortgages exists throughout the country. NeighborWorks America reported in 2007 that of the nearly 3,000 home loans it funded to borrowers averaging only two-thirds of the national median income and fitting the profile of subprime borrowers, the delinquency rate was only 3.34 percent. This was just a bit above the national prime delinquency rate of 2.63 percent for the same period and vastly below the nearly 15 percent subprime default rates prevailing at that time.<sup>21</sup> NeighborWorks America considered the fixed-rate, affordable mortgage one of the key drivers of the homeowners' successes.

A similar story can be found in the SoftSecond program offered by an alliance of organizations in Massachusetts. In this program, low- and moderate-income borrowers receive two loans to pay for their home—the first being a fully amortizing, fixed-rate, 30-mortgage, and the second being a “soft” loan that requires only interest payments for the first 10 years, thereby keeping borrowers' costs down while they build equity. Borrowers also receive prepurchase counseling and must provide a 3 percent down payment. In its two decades of existence, the SoftSecond program has helped 15,000 borrowers—10 percent to 20 percent of eligible households statewide—buy their first homes, and it has done so without increasing the risk of default: SecondSoft loans have a serious delinquency rate below that of prime loans in Massachusetts, and as of fiscal year 2010, the program had a default rate of just 3.4 percent since its inception.<sup>22</sup>

The evidence shows that nontraditional borrowers can succeed as homeowners when provided access to fair, affordable credit and that lenders can originate sustainable mortgages while maintaining responsible, profitable lending standards.

---

## Serving the lowest-hanging fruit: The problem of “market creaming”

Along with discrimination, another obstacle to increasing access to affordable homeownership is “market creaming.” Market creaming refers to the primary market’s tendency to preferentially serve those perceived to be the “easiest,” most lucrative, or least risky borrowers—the so-called cream of the crop—at the expense of borrowers who are equally able to sustain homeownership but require more customization and consideration due to nontraditional family structures, employment, or credit histories; purchase smaller homes; or live in inconvenient locations. Left to its own devices, the market will tend to deliver the best loans where it is easiest to do so and to channel higher-cost loans where borrowers are easier to exploit and have fewer options.

During the housing boom of the early to mid-2000s, creaming was less of a concern as the primary market raced to satisfy investors’ seemingly insatiable appetites for loans by loosening underwriting standards and expanding into traditionally underserved markets, including minority, rural, and low- and moderate-income communities. Many lenders exploited these populations’ historic lack of access by offering expensive, subprime products that were unsustainable in the long term. Lenders made money regardless of the borrower’s ability to repay because they sold the loans into the secondary market immediately. As a result, lenders had no incentive to be more cautious in underwriting the loans, and predatory pricing tactics allowed originators to reap handsome profits from all loans.

Today, however, lending is taking place in the context of the Dodd-Frank Act, which mandates tighter underwriting standards, limits certain kinds of lender-paid compensation to originators, and caps total points and fees that can be charged for safer loans. What’s more, burned by a large volume of secondary market repurchase requests, lenders have tightened underwriting standards even beyond what is required by law. Lenders are now requiring higher credit scores, larger down payments, lower debt-to-income ratios, and essentially refusing to lend in certain geographies, regardless of a potential homeowner’s creditworthiness. Symptomatic of this trend, between 2007 and 2012 originations of prime home-purchase mortgages fell 30 percent for borrowers with credit scores above 780 but fell 90 percent for borrowers with credit scores between 620 and 680.<sup>23</sup> As a result, the market is largely serving the most pristine borrowers, those seeking higher balance loans, and those in well-served locations. In other words, they are creaming.

“The pendulum has swung too far the other way,” explained Federal Reserve Chairman Ben Bernanke in a November 2012 speech.<sup>24</sup> According to Bernanke, such “overly tight lending standards may now be preventing creditworthy borrowers from buying homes, thereby slowing the revival in housing and impeding the economic recovery.” Because there are currently no incentives to loosen lending standards, however, lenders are unlikely to do so anytime soon.

Unless policymakers reshape the incentive structure, the housing industry is likely to continue to pursue the most lucrative loans at the expense of safe, affordable homeownership opportunities for a wider spectrum of borrowers.

---

### A bipartisan consensus regarding the importance of access to credit

We are not alone in calling for a housing-finance system that is more accessible to a wider range of people. The Bipartisan Policy Center Housing Commission recommended as much in its final report, “Housing America’s Future: New Directions for National Policy,” published in February 2013. The authors conclude:

*The mortgage finance system must create a stable, liquid market that finances safe and affordable mortgages for borrowers in all geographic markets through complete economic cycles, without discrimination, bias, or limitations to access that are not based on sound underwriting and risk management.*<sup>25</sup>

Additionally, providing access to all creditworthy borrowers delivers on the social compact inherent in the government’s support of the housing market. Private-sector participants directly benefit from the government’s involvement through risk management, standardization, efficiency, commodification, and capital. These direct benefits give rise to reciprocal social obligations, including ensuring broad-based access to the benefits.

# The secondary mortgage market's role in supporting access and affordability

---

## The influence of the secondary market on the primary market

The secondary mortgage market plays an important and often underestimated role in either limiting or promoting access to affordable, sustainable credit for underserved populations. Secondary market purchases influence the primary market's behavior via a selective willingness to buy various mortgage products.

Beginning in the 1990s, for example, Fannie Mae and Freddie Mac, the GSEs, enabled primary market lenders to serve low- and moderate-income borrowers better by pioneering affordability programs such as the Community Home Buyers Program, which both established sustainable products and garnered credit under the Community Reinvestment Act, or CRA. More recently investors' seemingly endless appetite for private mortgage-backed securities contributed significantly to the origination of risky loans prior to the 2007 mortgage-market crash. In other words, for better and for worse, the secondary market can and does guide primary market actors into new market segments by providing liquidity to the market.

As a result, the secondary market can be a powerful engine for innovation. Unlike individual lenders who have constrained resources and thus can't amass sufficient experience to determine scalability, the secondary market can quickly and effectively pilot new concepts. Because different plans have different terms for the entities that play the credit-risk-taking function currently played by the GSEs, we have created the term Secondary Market Entities, or SMEs, as a catch-all category.

SMEs can take innovations emerging from the primary market and standardize them to reach a larger market. They can establish product guidelines, experiment with financing the product, and in relatively short order have enough performance data from a wide range of lenders to analyze viability. Assuming the product proves scalable, SMEs can quickly establish a new market for the product, enabling lenders across the country to originate it and, in turn, extend their reach.



In this regard, the secondary market is empowered to exert quality control over the primary market. Prior to the 2007 collapse of the housing market, both the GSEs and private-label entities purchased adjustable-rate mortgages. Loans purchased by the GSEs were subject to the GSEs' standards and have defaulted at one-third the rate of the riskier adjustable-rate mortgages, or ARMs, securitized by the private-label securities market.

Similarly, the secondary market heavily influences the behavior of the primary market through pricing. The GSEs impose higher fees on certain loan types, for instance, thus discouraging the primary market from originating such loans.<sup>26</sup> Consequently, the market for those loans either shuts down due to lack of liquidity or moves to other channels such as the Federal Housing Administration. Conversely, when GSEs lower their fees for certain types of loans, lenders originate more of that product.

Secondary markets' policies regarding underwriting practices, documentation, risk-capital reserves, and repurchase requirements further influence the behaviors of the primary market. Through their policies on these issues, secondary market entities can ensure credit is extended in a responsible way by well-capitalized entities.

---

### The role of the secondary market in increasing access and affordability

The secondary market is in an ideal position to monitor and counteract the primary market's tendency to serve a narrower slice of the market by using tools such as outreach, pricing, and counterparty management. In doing so, the secondary market will not only increase access to affordable homeownership; it will also extend the primary market's reach—and business opportunities—in cases where the unique capabilities of the secondary market can direct funds to previously underserved markets.

Equally important, the secondary market can explicitly affirm and uphold the principles of fair, equitable, and nondiscriminatory access to credit for consumers. In addition to complying with the fair housing and lending laws and regulations, the secondary market can use funding and other mechanisms to reinforce the primary market's compliance with antidiscrimination laws. SMEs also are ideally positioned to compile data that can be analyzed to determine compliance.

To achieve the optimal balance between access to credit and safe and sustainable lending, any secondary market system should include mechanisms to further two important and complementary objectives: First, the system should have a way to incubate and support innovation around new products or processes that can expand homeownership both safely and profitably. Second, the system should discourage market creaming and encourage lending to as broad a range of borrowers as possible across all populations and geographies.

Upholding these principles is not only the responsibility of the secondary market entities but also of their regulators, who should explore other ways in which the secondary market can both reduce discrimination and affirmatively further fair lending and housing. The principles and rationale for access and affordability apply to the secondary mortgage market regardless of structure.

Were the secondary market to consist of a single agency acting as the predominant risk guarantor, for example, performance could be benchmarked against the market as a whole, and the agency or its regulator could set rules for providing access. Alternatively, if multiple private entities were playing that role, measuring and managing the performance of each entity would likely be benchmarked against regional or otherwise-defined markets and dynamics, as well as the entire market. Regardless of structure, the business of the secondary market must be managed to ensure safety and soundness and, in the case of privately owned enterprises, to generate a reasonable return.

In sections 4 and 5 of this report, we propose mechanisms for accomplishing each of these objectives. We offer these proposals as examples of how these objectives can easily and smoothly fit into a secondary market, regardless of structure. There may be other, possibly even better, approaches; however, by providing details around these examples, we hope to clarify the principles we discussed earlier in the report and to inspire engagement around these objectives and fresh ideas for reaching them.

# Rental housing's connection to the secondary mortgage market

Approximately one-third of Americans live in rental housing.<sup>27</sup> Nearly 50 percent of all low-income renters are minority households, and more than 50 percent of extremely low-income renters are households of color.<sup>28</sup>

Rental homes provide a starting place for new households, mobility for people who move with their work, convenience to transit, a transition for older adults who no longer need a large home, and affordable shelter for many Americans of low and moderate income. Rental housing is in urban, suburban, and rural communities. As we restructure the mortgage-finance system, we must ensure that it directs capital to rental housing, particularly housing that is affordable to low- and moderate-income households and is located in communities with access to good schools, jobs, transportation, and other amenities.

The cost of rental housing is an increasing burden, particularly for people with the least income. The U.S. Department of Housing and Urban Development, or HUD, recently reported that the number of low-income renter households with worst-case needs increased to 8.48 million in 2011, up from a previous high of 7.10 million in 2009.<sup>29</sup> Looking specifically at working households, the Center for Housing Policy found that more than one in four renter households spent more than half of their income on housing.<sup>30</sup> In most places, rents are rising faster than income.

Rental housing needs access to capital to serve the many people who rely on it. Construction of new rental properties only occurs if there is permanent mortgage capital available to finance it once construction is complete. In addition, properties large and small need periodic renovations, typically every five to seven years. To preserve older affordable rental housing, developers often need financing to acquire as well as renovate the properties. The secondary mortgage market provides a critical source of capital to finance all of this construction, acquisition, renovation, and refinancing.

The primary means that the federal government uses to ensure that capital flows to rental housing are the Federal Housing Administration, or FHA, and the GSEs, each of which has a division devoted to multifamily housing.<sup>31</sup> During the 2008 financial crisis, when private capital retreated nationwide, FHA and the GSEs were virtually the only sources of capital for financing rental housing. Even as private capital has gradually returned to the multifamily market, it has mostly focused on the highest-end properties in the strongest urban and suburban markets, leaving government channels to finance older, less-expensive properties and those in secondary and tertiary markets. As private capital gradually broadens its risk exposure, the recent crisis is a reminder that only a government-supported channel provides the countercyclical capacity to ensure steady access to capital for rental housing.

Performance of the GSE multifamily divisions, in particular, has been strong throughout the financial crisis. Default rates for Fannie Mae and Freddie Mac multifamily loans have remained well below 1 percent throughout and since the financial crisis. Disciplined underwriting, a strong network of originators, and active asset management kept both GSEs' multifamily finance divisions profitable—far different from what happened in the single-family market.<sup>32</sup> That provides a strong track record on which to build as we consider options for multifamily housing finance reform.

There are several proposals for housing-finance reform that specifically focus on multifamily finance, virtually all of which include an explicit government backstop paid for by a fee.<sup>33</sup> Whatever solution emerges on the single-family side likely will drive the outcome for multifamily finance, simply because the single-family business is so much larger. It is essential that multifamily rental finance needs get explicit attention in housing-finance reform so that the eventual new system preserves the strengths that have lasted through the financial crisis to finance affordable rental housing, which is key to ensuring that vulnerable populations continue to have access to housing.

With respect to access and affordability, multifamily rental finance is a critical mechanism by which the secondary mortgage market can promote these principles. Fannie Mae and Freddie Mac for many years relied on their multifamily finance divisions to help meet their affordable housing goals, in part because multifamily rental housing naturally addresses low- and moderate-income households as well as households of color.

Government should encourage whatever secondary market entities emerge to devote a portion of their activities to rental housing, ideally with an aim to creating profitable, self-sustaining business lines that finance affordable rental housing. Activities of the National Housing Trust Fund and Capital Magnet Fund (discussed in Section 4) are also important components of the secondary market, and neither should substitute for the other. Performance in the multifamily finance area would fall under the periodic review by the regulator (discussed in Section 5).

Demand for rental housing continues to rise faster than the incomes of those who live in it. For our housing-finance system to truly serve all in America, it must ensure stable access to capital for the production and preservation of rental housing.

# The Market Access Fund

---

## A tool for providing access

Over the past 30 years, we've learned that many potential homeowners who were once thought to be unacceptable risks because of low wealth, unconventional employment, or lack of traditional credit have been successfully served by the housing finance system through careful underwriting and targeted lending programs that address these borrowers' needs. Often such programs grow out of small, scalable pilots that use limited amounts of credit enhancement.

The products that are appropriate for these prospective homeowners and owners of rental homes who are not easily served by private markets demanding competitive rates of return often require some amount of credit enhancement, or "risk capital." These borrowers inhabit a gray zone between fully private credit and fully insured credit through agencies such as the Federal Housing Administration, the Department of Veterans Affairs, and USDA's Rural Housing Services, or RHS.

During their most effective years, Fannie Mae and Freddie Mac generated some of this innovation through their own risk capital by relying on standard, fully documented loans; on their large market shares; and on broadly priced credit products, using limited pilots or trusted partners.

Banks subject to the Community Reinvestment Act also do some of this on a limited scale, both internally and through support of mission-oriented intermediaries such as Community Development Financial Institutions, or CDFIs. Many of the most successful of these programs benefit from either explicit or implicit support from the federal government, including the FHA, the VA, RHS, and the GSEs.

Because many proposals for a revamped housing finance system require the majority of the mortgage credit risk to be borne by private capital, which is not subject to CRA or the GSEs' housing goals, the structure to support this type of innovation may not evolve organically. For this reason, we believe it is critical to create an explicit capacity for such activities regardless of future structure.

To this end, we propose establishing a Market Access Fund, or MAF,<sup>34</sup> to promote broader access to mortgage credit and to support the types of innovations that have proved so successful in the past. The MAF would be capitalized through a small assessment (likely a fraction of a cent per dollar) on all securitized mortgages, whether or not an issue receives a federal catastrophic guarantee. This assessment would have a negligible impact on the cost of an individual mortgage but collectively would generate a significant amount of income. Those monies would be used to support the development and testing of innovative, affordable products and services for approximately 1 million to 2 million households annually.

In a housing finance system without Fannie Mae and Freddie Mac, a small fee on all mortgages in the secondary market is an efficient substitute for lost GSE financing and innovation as well as replacing the assessment that was established by the Housing and Economic Recovery Act of 2008, or HERA, to support affordable housing through the National Housing Trust Fund and the Capital Magnet Fund. Like servicing fees, the MAF fee could be easily collected by the Securities and Exchange Commission on behalf of the fund—or, if proposals for a single securitization platform are implemented, by the platform itself.

---

## What would the Market Access Fund do?

The MAF would serve four broad functions:

### 1. Grants and loans

Provide grants and loans for research, development, and pilot testing of innovations in prepurchase preparation, product, underwriting, and servicing that expand the market for sustainable homeownership and for unsubsidized, affordable rental. Examples<sup>35</sup> of potential products that could be developed and tested with this portion of the MAF include:

- Use of innovative automatic underwriting systems that include such variables as housing counseling or participation in a savings program such as Individual Development Accounts
- Nonfee ownership structures such as community land trusts and restricted deed sales, which reduce the immediate entry price for homeownership while retaining permanent affordability

- Low-down-payment mortgages that require a portion of every mortgage payment to be deposited into a reserve savings account (beyond a standard escrow account) to provide a cushion for both repair/maintenance and economic stress

## 2. Credit enhancement

Offer limited credit enhancement and other credit support for products that increase sustainable homeownership and affordable rental but that could not otherwise be piloted at sufficient scale to determine viability in the private market.

- Financing for rehabilitation and energy retrofits of small rental properties where the operating cost savings can frequently cover the cost of financing
- Biweekly payment mortgages that result in 13 monthly payments each year, thus amortizing more quickly than a standard monthly mortgage
- Sustainable housing counseling models that combine lender support, client fees, and limited government and philanthropic subsidies

## 3. Capital Magnet Fund

The MAF would also capitalize the Capital Magnet Fund, which enables CDFIs and nonprofit housing developers to attract private capital and take affordable housing and community-development activities to greater scale and impact. The Capital Magnet Fund was authorized by Congress under HERA and was to have permanent, dedicated financing through a charge on Fannie Mae and Freddie Mac. As a result of Fannie and Freddie being put into conservatorship, however, it has only received one round of appropriated funding, in FY 2010. Examples of successful projects funded through the Capital Magnet Fund are:

- Preserving 206 units of affordable housing through an unsecured loan that financed land acquisition with credit enhancement provided by Capital Magnet funds



- Financing 67 multifamily rental units on Skid Row in Los Angeles, California, for extremely low-income individuals and 50 new units of housing for seniors in Shreveport, Louisiana
- Supporting the conversion of four manufactured housing parks from investor-owned to resident-owned communities

#### 4. National Housing Trust Fund

The MAF would also capitalize the National Housing Trust Fund, a HUD-administered state block-grant program designed primarily to increase and preserve the supply of rental housing for extremely low-income families (under 30 percent of area median income) and very low-income families (under 50 percent of area median income). States can administer the funds through the state housing finance agency or housing department or pass a portion on to local governments. The Trust Fund was authorized by HERA and was to have permanent, dedicated financing through a charge on Fannie Mae and Freddie Mac, but due to the conservatorship, it has never received any funds.

# Strategic plans and evaluation

In addition to providing targeted funding to expand the range of borrowers served by the housing-finance system, the system also needs a mechanism to ensure against market creaming, the phenomenon that we identified in Section 2 of this report. This mechanism can proactively support the flow of fair and affordable credit by identifying market gaps, elevating promising products, and halting predatory or discriminatory activity.

As is the case in our current housing-finance structure, there must be a market regulator responsible for monitoring the use of the taxpayer guarantee, ensuring that the public benefit is not abused or unfairly rationed. Because it will have a comprehensive view of the national housing landscape, the secondary market regulator will be in the best position to ensure that the benefits of a taxpayer-funded guarantee are available to all qualified borrowers, regardless of the ultimate structure of the system. (Note: It is possible that there will be more than one regulator involved in this system, but for the sake of readability, we refer in this section to a single regulator.)

While the accountability mechanism will need to adapt to the new structure of the housing-finance system, this section proposes one possible model for evaluating performance that includes three key components: overall market assessments, rigorous oversight and evaluation, and individualized strategic plans.

---

## Step 1: Conduct overall market assessment

A key component of the system is for the regulator to provide the public with an annual assessment of the housing market, including a needs analysis to identify priority and unmet needs and to identify areas that have gone underserved by the market as a whole. In recent years examples of pressing and unmet needs have included rural and manufactured housing, senior housing—including aging-in-place options and affordable life care centers—affordable rental housing, and the homeownership gap between whites and people of color.

Next, the regulator would assess the potential causes of these market gaps and offer insights and recommendations for closing them, which might include actions such as counseling, better outreach to borrowers or servicers, underwriting reforms, or changes in repurchase agreements.

---

## Step 2: Oversee and evaluate SME performance

Using the market assessments and data on primary and secondary market activity, the regulator would evaluate the extent to which SMEs meet the housing needs identified by the market analysis and comply with fair housing and other relevant laws. Such evaluation would include using the Home Mortgage Disclosure Act, or HMDA, and other data to compare SME performance against the primary market, their peers, and demographic benchmarks. As part of the evaluation, the regulator would solicit public input on SMEs' recent performance.

Because each SME is likely to have a different footprint and business strategy, the regulator would adjust the evaluations accordingly to account for an SME's specific situation. When reviewing an SME's performance, for example, it would consider the presence of other SMEs in that market, the extent of secondary market activity, the structure of the primary market, and economic conditions that would affect performance. It would also focus on regions or other areas that appropriately reflect the SME's size and the scale of its operations.

For performance measures involving low- and moderate-income borrowers, income definitions would correspond to CRA exams so that SME and bank performance could be directly compared and so that the secondary market would support and be aligned with primary market access efforts. Other performance measures would include SMEs' ability to reach underserved communities as previously identified by the regulator.

In addition to reviewing SMEs' loan financing, the regulator would also consider how effectively the SMEs assist borrowers to succeed as homeowners. It would determine if an SME is appropriately deploying MAF money to support quality counseling, assess innovations in product development and underwriting supported by the Market Access Fund, and evaluate SME loss-mitigation activities to ensure programs are effectively assisting borrowers to avoid foreclosure.

Additionally, the regulator would conduct a safety and soundness assessment to analyze the loans financed by the SMEs to ensure that the loans are affordable, responsible, and sustainable. If any significant segment of the loans were significantly underperforming industrywide averages or were otherwise determined to be unsafe or unsound, the regulator would have the authority to take remedial actions to address the problem.

The regulator would use the evaluations to rate SME performance. Noncompliance with antidiscrimination or consumer-protection laws would negatively impact the ratings.

---

### Step 3: Build individualized strategic plans for each SME

Each SME would then design a strategic plan that would flow at least in part from the housing needs identified in the regulator's market assessments. SMEs would use the strategic planning process to identify specific priority housing and credit needs that they intend to address, creating opportunities for the entities to proactively respond to unmet market needs.

The SMEs could also suggest innovative partnerships with lending institutions, community organizations, and public agencies. They could involve community stakeholders in the planning process and subsequent activities both to better understand borrower needs and to establish robust relationships with community organizations.

Additionally, in response to market analysis published by the regulator and benchmarks from the regulators' evaluations, SMEs would detail strategies for addressing any identified areas of weakness.

The plan would be open for public input and subject to regulatory approval.

## Continuous cycle of assessment and improvement

The continuous cycle of market assessment, strategic plans, and evaluations would create a rigorous but flexible accountability mechanism. It would promote responsible lending and increased borrower support services for affordable housing. It could also initiate a rigorous dialogue among SMEs, lenders, regulatory agencies, and the general public regarding how best to address housing and credit needs using objective and evolving performance measures. This sustained dialogue is missing in current evaluations of financial institutions and is imperative to improving access to credit and capital for affordable housing.

# Conclusion

Owning a home provides economic and social stability for middle-class families, builds wealth that can be leveraged and transferred across generations, and encourages residents to maintain their properties and invest in their communities. Affordable rental housing protects families against poverty, gives them more resources to meet other needs such as health and child care, and can even provide an opportunity to save for a down payment.

The secondary market plays a key role in ensuring access to credit both for homebuyers and for providers of affordable rental housing. As we proceed with our national conversation about how to reform the secondary market, we will spend much time discussing questions of structure, including the appropriate role of private capital, how to minimize risk to taxpayers, and the future of the 30-year fixed-rate mortgage. But we must also address questions of access and affordability. If we keep these principles in mind, we can design a secondary market structure that treats everyone equally and supports the type of broad, accessible, and affordable mortgage market that will best support American families and the national economy.

---

## Endnotes

- 1 Craig Evan Pollack, Beth Ann Griffin, and Julia Lynch, "Housing Affordability and Health Among Homeowners and Renters," *American Journal of Preventative Medicine* 39 (6) (2010): 515–521, available at <http://download.journals.elsevierhealth.com/pdfs/journals/0749-3797/PIIS0749379710004551.pdf>; Richard K. Green and Michelle J. White, "Measuring the Benefits of Homeowning: Effects on Children," *Journal of Urban Economics* 41 (1997): 441–461, available at <http://econ.ucsd.edu/~miwhite/gw-jue-reprint.pdf>; Jinlan Ni and Christopher Decker, "The Impact of Homeownership on Criminal Activity: Empirical Evidence from United States County Level Data," *Economics & Business Journal: Inquiries & Perspectives* 2 (1) (2009): 17–37, available at <http://ecedweb.unomaha.edu/neba/journal/EBJ-P2009NiDecker.pdf>; Mark E. Schweitzer and Scott A. Shane, "The Effect of Falling Home Prices on Small Business Borrowing" (Cleveland, OH: Federal Reserve Bank of Cleveland, 2010), available at <http://www.clevelandfed.org/research/commentary/2010/2010-18.cfm>.
- 2 Todd Sinai and Nicholas S. Souleles, "Owner-Occupied Housing as a Hedge Against Rent Risk," *The Quarterly Journal of Economics* 120 (2) (2005): 763–789, available at <http://qje.oxfordjournals.org/content/120/2/763.abstract>; James M. Williamson and Timothy M. Smeeding, "Sliding into Poverty? Cross-National Patterns of Income Source Change and Income Decay in Old Age," Working Paper 2004-25 (Center for Retirement Research at Boston College, 2004), available at <http://crr.bc.edu/working-papers/sliding-into-poverty-cross-national-patterns-of-income-source-change-and-income-decay-in-old-age/>.
- 3 Wealthier homeowners carry larger mortgages and thus have more interest eligible for deduction; the amount of the eligible deduction increases in step with a household's marginal tax rate; and many lower-to-middle income homeowners do not itemize their deductions. See Will Fischer and Chye-Ching Huang, "Mortgage Interest Deduction Is Ripe for Reform: Conversion to Tax Credit Could Raise Revenue and Make Subsidy More Effective and Fairer" (Washington: Center on Budget and Policy Priorities, 2013), available at <http://www.cbpp.org/cms/?fa=view&id=3948>. The mortgage interest deduction also costs approximately \$68.5 billion a year. See Bipartisan Policy Center Housing Commission, "Housing America's Future: New Directions for National Policy" (2013), available at <http://bipartisanpolicy.org/library/report/housing-future>.
- 4 Thomas Shapiro, Tatjana Meschede, and Sam Osoro, "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide" (Waltham, MA: Brandeis Institute on Assets and Social Policy, 2013), available at <http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf>.
- 5 Debbie Gruenstein Bocian and others, "Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures" (Washington: Center for Responsible Lending, 2011), available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf>.
- 6 Center for Responsible Lending, "Yield Spread Premiums: A Powerful Incentive for Equity Theft" (2004), available at [http://www.responsiblelending.org/mortgage-lending/tools-resources/ib011-YSP\\_Equity\\_Theft-0604.pdf](http://www.responsiblelending.org/mortgage-lending/tools-resources/ib011-YSP_Equity_Theft-0604.pdf).
- 7 Jacob S. Rugh and Douglas S. Massey, "Racial Segregation and the American Foreclosure Crisis," *American Sociological Review* 75 (5) (2010): 629–651, available at [http://blogs.reuters.com/felix-salmon/files/2010/10/10ASR10\\_629-651\\_massey-2.pdf](http://blogs.reuters.com/felix-salmon/files/2010/10/10ASR10_629-651_massey-2.pdf); Christian E. Weller, "Access Denied: Low-Income and Minority Families Face More Credit Constraints and Higher Borrowing Costs" (Washington: Center for American Progress, 2007), available at [http://www.americanprogress.org/wp-content/uploads/issues/2007/08/pdf/credit\\_access.pdf](http://www.americanprogress.org/wp-content/uploads/issues/2007/08/pdf/credit_access.pdf). In addition, the Department of Justice recently announced settlements with two major financial institutions—Wells Fargo and Bank of America/Countrywide—in which the banks agreed to pay roughly \$175 million and \$335 million, respectively, to resolve claims that African American and Hispanic borrowers were placed in higher-cost loans than those for which they qualified. See U.S. Department of Justice, "Justice Department Reaches Settlement with Wells Fargo Resulting in More Than \$175 Million in Relief for Homeowners to Resolve Fair Lending Claims," Press release, July 12, 2012, available at <http://www.justice.gov/opa/pr/2012/July/12-dag-869.html>; U.S. Department of Justice, "Justice Department Reaches \$335 Million Settlement to Resolve Allegations of Lending Discrimination by Countrywide Financial Corporation," Press release, December 21, 2011, available at <http://www.justice.gov/opa/pr/2011/December/11-ag-1694.html>.
- 8 Gruenstein Bocian and others, "Lost Ground, 2011."
- 9 Robert B. Avery and others, "The 2009 HMDA Data: The Mortgage Market in a Time of Low Interest Rates and Economic Distress" (Washington: Board of Governors of the Federal Reserve System, 2010), available at <http://www.federalreserve.gov/pubs/bulletin/2010/articles/2009HMDA/default.htm>.
- 10 U.S. Census Bureau, "Residential Vacancies and Homeownership in the Third Quarter 2012," Press release, October 30, 2012, available at <http://www.census.gov/housing/hvs/files/qtr312/q312press.pdf>.
- 11 Signe-Mary McKernan and others, "Less Than Equal: Racial Disparities in Wealth Accumulation" (Washington: Urban Institute, 2013), available at <http://www.urban.org/publications/412802.html>. See also Rakesh Kochhar, Richard Fry, and Paul Taylor, "Wealth gaps rise to record highs between whites, blacks, Hispanics: Twenty-to-one," (Washington: Pew Research Center, 2011), available at <http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>; Debbie Gruenstein Bocian, Wei Li, and Keith S. Ernst, "Foreclosures by Race and Ethnicity: The Demographics of a Crisis" (Durham, NC: Center for Responsible Lending, 2010), available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.pdf>.
- 12 U.S. Census Bureau, "Most Children Younger Than Age 1 are Minorities, Census Bureau Reports," Press release, May 17, 2012, available at <http://www.census.gov/newsroom/releases/archives/population/cb12-90.html>; Sam Roberts, "Minorities in U.S. set to become majority by 2042," *The New York Times*, September 14, 2008, available at <http://www.nytimes.com/2008/08/14/world/americas/14iht-census.1.15284537.html>.

- 13 U.S. Census Bureau, "Most Children Younger Than Age 1 are Minorities, Census Bureau Reports."
- 14 The Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2012" (2012), available at <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2012.pdf>.
- 15 Authors' calculations from U.S. Census Bureau, Households by Total Money Income, Race, and Hispanic Origin of Householder: 1967 to 2010 (U.S. Department of Commerce, 2011), available at <http://www.census.gov/prod/2011pubs/p60-239.pdf>.
- 16 Center for Responsible Lending, "A Government-Mandated 10% Down Payment: Bad for Families, the Housing Market and the Economy" (2012), available at <http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/10-percent-down-payment-bad.pdf>.
- 17 At the time the 2010 HMDA data were collected, federal regulations defined "high-cost" mortgages as loans with an interest rate at least 1.5 percentage points for first-lien loans (3 percentage points for secondary-lien loans) higher than the annual percentage rate offered on prime mortgage loans of comparable type.
- 18 Housing Assistance Council Tabulations of 2010 Home Mortgage Disclosure Act data. See Housing Assistance Council, "Taking Stock: Rural People, Poverty, and Housing in the 21st Century" (2012), available at <http://www.ruralhome.org/component/content/article/587-taking-stock-2010>.
- 19 Allison Freeman and Janneke Ratcliffe, "Setting the Record Straight on Homeownership" (Chapel Hill, NC: UNC Center for Community Capital, 2012), available at <http://www.ccc.unc.edu/documents/SettingTheRecordStraightOnHomeownership.pdf>.
- 20 Ibid.
- 21 Gretchen Morgenson, "Blame the Borrowers? Not So Fast," *The New York Times*, November 25, 2007, available at <http://www.nytimes.com/2007/11/25/business/25gret.html?pagewanted=all>.
- 22 UNC Center for Community Capital, "Massachusetts SoftSecond Loan Program" (2011), available at <http://www.ccc.unc.edu/documents/CaseStudy.Sustain.LIMtge.Lend.MPP5.12.pdf>.
- 23 Gov. Elizabeth A. Duke, "A View from the Federal Reserve Board: The Mortgage Market and Housing Conditions," Housing Policy Executive Council, Washington, D.C., May 9, 2013, available at <http://www.federalreserve.gov/newsevents/speech/duke20130509a.htm>.
- 24 Ben Bernanke, "Challenges in Housing and Mortgage Markets," Operation HOPE Global Financial Dignity Summit, Atlanta, Georgia, November 15, 2012, available at <http://www.federalreserve.gov/newsevents/speech/bernanke20121115a.htm>.
- 25 Bipartisan Policy Center Housing Commission, "Housing America's Future."
- 26 For more information, see Adam Rust, "The Loan Level Pricing Adjustments: A New Hurdle to Homeownership" (Durham, NC: Community Reinvestment Association of North Carolina, 2011), available at <http://www.reinvestmentpartners.org/sites/reinvestmentpartners.org/files/pdf/The%20New%20Hurdle%20to%20Home%20Ownership.pdf>.
- 27 Joint Center for Housing Studies of Harvard University, "America's Rental Housing: Meeting Challenges, Building Opportunities" (2011), available at <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americasrentalhousing-2011.pdf>.
- 28 National Low Income Housing Coalition tabulations of the 2010 American Community Survey public use microdata sample, available at [http://www.census.gov/acs/www/data\\_documentation/public\\_use\\_microdata\\_sample/](http://www.census.gov/acs/www/data_documentation/public_use_microdata_sample/) (last accessed May 2013).
- 29 U.S. Department of Housing and Urban Development, Worst Case Housing Needs 2011: Report to Congress (2013), available at [http://www.huduser.org/Publications/pdf/HUD-506\\_WorstCase2011.pdf](http://www.huduser.org/Publications/pdf/HUD-506_WorstCase2011.pdf).
- 30 Janet Viveiros and Maya Brennan, "Housing Landscape 2013" (Washington: Center for Housing Policy, 2013), available at <http://www.nhc.org/media/files/Landscape2013.pdf>.
- 31 Multifamily Housing is distinct from rental housing, since multifamily buildings can be owned, and condominiums and single-family homes can be rented. Financing of new rental housing tends to focus on multifamily channels, which leaves a capital gap for small-building and single-family rentals.
- 32 Fannie Mae, "Analysis of the Viability of Fannie Mae's Multifamily Business Operating without a Government Guarantee: Response to FHFA Scorecard Directive" (2012), available at <http://www.fhfa.gov/webfiles/25160/FNMMF2012ScorecardResponse.pdf>; Freddie Mac, "Report to the Federal Housing Finance Agency: Housing Finance Reform in the Multifamily Mortgage Market" (2012), available at [http://www.fhfa.gov/webfiles/25161/FREReport\\_MF\\_MarketAnalysis.pdf](http://www.fhfa.gov/webfiles/25161/FREReport_MF_MarketAnalysis.pdf); Ethan Handelman, David A. Smith, and Todd Trehubenko, "Government-Sponsored Enterprises and Multifamily Housing Finance: Refocusing on Core Functions" (Washington and Boston: National Housing Conference and RECAP Real Estate Advisors, 2010), available at [http://www.nhc.org/media/files/Recap\\_NHC\\_GSE\\_Core\\_Functions.pdf](http://www.nhc.org/media/files/Recap_NHC_GSE_Core_Functions.pdf).
- 33 See, for example, the plans put forth by the Mortgage Finance Working Group, the Mortgage Bankers Association, and the Bipartisan Policy Center's Housing Commission. These plans are summarized in John Griffith, "The \$5 Trillion Question: What Should We Do with Fannie Mae and Freddie Mac?" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/wp-content/uploads/2013/03/NewGSEReformMatrix.pdf>; Handelman, Smith, and Trehubenko, "Government-Sponsored Enterprises and Multifamily Housing."
- 34 The Market Access Fund was first proposed in early 2011 by the Mortgage Finance Working Group convened by the Center for American Progress, along with a recommendation for secondary market structure. In this paper, the fund stands on its own and is not dependent on a particular structure. See Mortgage Finance Working Group, "A Responsible Market for Housing Finance" (Washington: Center for American Progress, 2011), available at <http://www.americanprogress.org/issues/housing/report/2011/01/27/8929/a-responsible-market-for-housing-finance/>.
- 35 Note that some of the examples in this and the following three sections already exist but are being run at a small scale, and a MAF would enable them to reach a much larger potential market.



---

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just, and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is “of the people, by the people, and for the people.”

The National Council of La Raza (NCLR)—the largest national Hispanic civil rights and advocacy organization in the United States—works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations, NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas—assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families.

