SIFMA®
Securities Industry and
Financial Markets Association

January 17, 2008

The Honorable Henry M. Paulson, Jr.
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Paulson:

As the Administration and Congress explore options to stimulate the economy in a temporary, targeted and timely manner, the Securities Industry and Financial Markets Association (SIFMA) has considered various options to efficiently respond to the critical and urgent housing needs faced by troubled homeowners. We believe the suggested changes to the Mortgage Revenue Bond program, which will enhance flexibility and capacity of state and local governments, are appropriate to include in any stimulus package.

Tax-exempt qualified mortgage revenue bonds (MRBs), issued by state and local government housing finance agencies (HFAs), are an important tool to finance low-cost mortgage loans for low- and moderate income families. Under current law, qualified MRBs support new mortgages for first-time homebuyers for owner-occupied single-family homes. Borrowers under MRB programs are limited both by income and home value, so the program is truly targeted to low- and middle-income families. HFAs sell MRBs in the capital markets, $24.7 billion issued in 2007, and use the proceeds to finance below-market-rate mortgages for targeted families.

SIFMA recommends the following:

<u>I. Assist Subprime Borrowers</u>

►Temporarily expand the current MRB program to allow refinancing of existing subprime loans. In December 2007, both the Administration and bipartisan Members of Congress endorsed the idea of granting state and local housing authorities the ability to issue tax-exempt MRBs to refinance existing subprime loans.

This change would help qualified subprime borrowers who are facing an interest rate reset on their outstanding loan to refinance into a below-market-rate loan financed with MRBs, and would help targeted families avoid foreclosure.

<u>II. Increase Capacity</u>

► Volume Cap
Increase the Private Activity Bond volume cap for MRBs only so that states will have additional capacity to meet their respective housing finance needs.

►Alternative Minimum Tax
Exempt housing bonds issued during a defined period of time from the Alternative Minimum Tax (AMT). Exempting housing bonds from the AMT would offer
certainty to reluctant investors who may have previously stayed out of this marketplace due to the AMT. It would also reduce the cost of MRB-financed mortgages by as much as ½ percentage point. Either way, maintaining the application of the AMT to these bonds would result in costlier mortgages for qualifying homebuyers.

►10-year Rule
The 10-year rule requires HFAs to use mortgage repayments to retire MRBs that are more than 10 years old rather than make new loans to deserving homebuyers. Repealing the 10-year rule would enhance the ability of state and local housing agencies to fund new mortgages with the proceeds of mortgage prepayments.

As Congress deliberates on how to best to revitalize the economy with temporary, targeted and timely assistance, we urge your strong consideration of these limited yet meaningful changes to the MRB program.

Sincerely,

Scott DeFife
Senior Managing Director
Government Affairs

Richard Hunt
Senior Managing Director
Government Affairs