

March 9, 2018

An Open Letter to Congress on GSE Reform

Dear Senator or Representative:

It has been almost ten years since Fannie Mae and Freddie Mac were placed into conservatorship. The undersigned lending institutions active in the mortgage markets are encouraged by the recent progress in Congress on comprehensive housing finance reform, particularly the consensus on both sides of the aisle on certain core principles:

- an explicit federal guarantee on mortgage securities to preserve the 30-year fixed rate mortgage and long-term financing for multifamily rental housing,
- significantly more private capital at risk ahead of the taxpayer, and
- a utility-style regulatory framework to ensure a level playing field and equal access to the secondary market for lenders of all sizes and business models.

With those principles in place, it is critical for a reformed system to preserve the operational integrity needed to ensure that mortgage capital markets will work effectively through transition and beyond. Two leading options have emerged in this debate:

- a “guarantor-based” system that builds on and improves the current system with two or more entities chartered to operate solely in the secondary market by acquiring and securitizing mortgages from small and large lenders alike.
- an “issuer-based” system that relies primarily on a handful of larger “lender-aggregators” to originate and/or acquire mortgages from smaller lenders and issue the securities themselves, after securing the federal guarantee.

The undersigned institutions strongly believe a guarantor-based system is best able to meet the housing finance needs of Main Street. Here’s why:

Simplicity: A guarantor-based system preserves the existing plumbing, technology, and infrastructure while fixing what was wrong with Fannie Mae and Freddie Mac.

Competition: A guarantor-based system will promote competition between multiple guarantors seeking business from thousands of lenders.

Small Lender Access: By requiring the preservation of both a cash window and securities execution options, the guarantor model supports a level playing field and equal access for all lenders and does not discriminate based on size or business model.

Bright Line: By limiting the ability of guarantors to be owned by a lender or engage in loan origination, the multiple guarantor approach ensures a clear separation between the primary and secondary mortgage markets.

Transition Risk: A multiple guarantor approach minimizes transition risks by utilizing the new Common Securitization Platform (CSP) built over the past several years, providing a scalable mechanism that can accommodate additional guarantors.

The undersigned lending institutions believe that a guarantor-based model protects both taxpayers and consumers. This approach will deliver on both the core principles and the operational needs of the thousands of diverse primary market participants, and will do so with the confidence and stability needed during the transition and thereafter.

We strongly urge Congress not to cede this important policy debate solely to the Executive Branch, and to consider these critical needs of the new system as the House and Senate both move forward on housing finance reform.

Sincerely,

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