Enact GSE Reform to Create a Sustainable, More Vibrant Secondary Mortgage Market

Resolving the status of Fannie Mae and Freddie Mac (the GSEs), having exceeded a decade of government conservatorship, remains the final piece of unfinished business following the financial crisis. Although several housing finance reform bills have been contemplated in Congress in recent years, none have garnered enough support to become law. Creating a sustainable, more vibrant secondary mortgage market should be a top priority for this Congress.

OVERVIEW

- A contractual agreement between the Federal Housing Finance Agency (FHFA) and the Treasury Department requires the GSEs to send the majority of their profits to the federal government, while their capital buffers remain minimal in size.
- The GSEs cannot simply, nor easily, emerge from conservatorship via a recapitalization due to the amount of capital required to protect the taxpayer.
- Congressional action is a necessary condition for a number of important improvements to the secondary market:
  - Changing the existing GSE charters;
  - Establishing an explicit government backstop for the GSEs’ mortgage-backed securities (MBS);
  - Creating a Mortgage Insurance Fund to serve as a buffer against taxpayer losses;
  - Locking in the level playing field for smaller lenders that currently exists with respect to guarantee fees and underwriting standards;
  - Empowering regulators to grant charters to new competitors; and
  - Providing the legitimacy and public confidence needed for a long-term solution to housing finance reform.
- In early 2016, MBA convened a Board of Directors-level Task Force to address many of the outstanding questions surrounding GSE reform. The Task Force—made up of individuals from a broad cross-section of MBA member companies—spent more than a year considering potential approaches to GSE reform. In April 2017, MBA released the final product of the Task Force: a white paper titled “GSE Reform: Creating a Sustainable, More Vibrant Secondary Mortgage Market.” The approach detailed in that white paper has become a leading model for ongoing legislative GSE reform efforts.
- On December 21, 2018, MBA President and CEO Bob Broeksmit testified before the full House Financial Services Committee to advocate for MBA’s suggested approach to secondary mortgage market reform.

For more information, visit mba.org or call (202) 557-2700.
• And, earlier this year, Banking Committee Chairman Mike Crapo (R-ID) released an outline for GSE reform. MBA continues to advocate for greater private capital in the system to provide competition while maintaining the broad, liquid, national market that exists today.

• Broeksmit will testify again on MBA’s behalf on this topic before the Senate Banking Committee on March 27, 2019.

IMPACT

• In their current condition, the GSEs remain “too big to fail,” as they guarantee over $5 trillion of MBS. The lack of meaningful competition from issuers of “private-label” MBS results in significant market concentration around two entities, exposing taxpayers and the housing system to greater risk. While compensating the taxpayers for insuring the risk of another catastrophic failure provides a partial fix, it does not correct the more problematic provisions in the GSEs’ charters or the flaws in their pre-crisis operations.

• An explicit guarantee of eligible MBS is necessary to provide certainty to global investors and ensure capital for mortgage loans through all economic cycles. Only Congress can provide for such an explicit guarantee.

• The uncertainty around the future of the GSEs continues to paralyze investment in new or dormant mortgage securitization channels, as capital sources await final action by Congress on the future of the secondary mortgage market.

• If Congress fails to enact legislative reforms, there exists a strong possibility that administrative reform will be undertaken. Such reform would likely shrink the government role in the mortgage market without providing mechanisms to ensure that reliable substitutes are available to take its place.

MBA’S POSITION / NEXT STEPS

• Long-term conservatorship is not a healthy end-state for the housing finance system.

• MBA urges Congress to move forward on thoughtful, comprehensive GSE reform legislation that focuses on certain core principles, as outlined in MBA’s white paper:
  o Preserve the 30-year, fixed-rate, pre-payable single-family mortgage and long-term financing for multifamily mortgages;
  o Maintain a deep, liquid to-be-announced (TBA) market for securities backed by conventional single-family loans;
  o Attract global capital and preserve liquidity during times of economic stress through an explicit government guarantee for eligible MBS;
  o Limit the explicit government guarantee to the eligible MBS, while prohibiting the extension of the guarantee to the debt of the guarantors;
  o Require the guarantors to support an effective, national affordable housing strategy that helps meet the needs of low-income and underserved households and communities;
  o Support a competitive and diverse primary market for lenders of all sizes and business models;
  o Protect against vertical integration between guarantors and lenders to preserve the bright line between the primary and secondary markets;
  o Enable a robust, innovative and purely private mortgage market to coexist alongside the government-backed market;
- Preserve existing multifamily financing executions and permit new options;
- Establish a strong, transparent regulatory framework that promotes liquidity while protecting taxpayers;
- Ensure that private capital assumes most of the credit risk;
- Ensure liquidity in the event of a full-blown systemic crisis; and
- Minimize risks to the liquidity and stability of the mortgage markets during the transition to the end-state.

- MBA will continue to engage with Congress, the administration, and other policymakers and stakeholders to convey the importance of completing GSE reform and putting our nation's housing market onto firmer, more durable footing.
- MBA will also be working with FHFA to finalize key outstanding transition steps: movement to a Uniform MBS issued by the GSEs, utilization of a Common Securitization Platform and development of broader and more accessible up-front risk-sharing options. Once complete, these steps will improve market liquidity, reduce taxpayer exposure and facilitate a smoother transition to Congress' desired end-state.