



# GSE Reform: Creating a Sustainable, More Vibrant Secondary Mortgage Market

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# Why We Need GSE Reform

- Long-term conservatorship is politically and economically unstable
- Ending conservatorship must start with reform first
- Government and private sector roles in the market need to be re-balanced
  - Fix structural flaws in the pre-crisis system (e.g., implied guarantee)
  - Protect taxpayers from future bailouts
- Ensure continued liquidity for mortgage credit through all economic cycles
- Support expanded affordable housing opportunities



# GSE Reform: Balancing Multiple Priorities



- Taxpayer Protections
- Investor Returns
- Consumer and Borrower Costs/Access to Credit

# Why Congress Needs to Act

Only Congress can do the following:

- Change the existing charters for Fannie Mae and Freddie Mac
- Establish a new, explicit government guarantee that backs eligible MBS
- Create a Mortgage Insurance Fund (MIF) funded by appropriately-priced premiums to support the government's guarantee of the eligible MBS
- Empower FHFA or its successor to grant charters to new Guarantors
- Provide political legitimacy and market confidence for a stable, long-term solution

# Key Principles

- Preserve what works: 30-year, fixed-rate, single-family mortgage; TBA market; and long-term multifamily financing options
- Minimize transition risks to avoid market disruptions
- Leverage competition and existing infrastructure
- Ensure liquidity through all economic cycles
- Explicit guarantee of eligible single-family and multifamily MBS only
- Increased levels of private first-loss capital ahead of taxpayers
- Strong capital supervision and regulation of activities
- Promote competitive primary market for lenders of all sizes/models

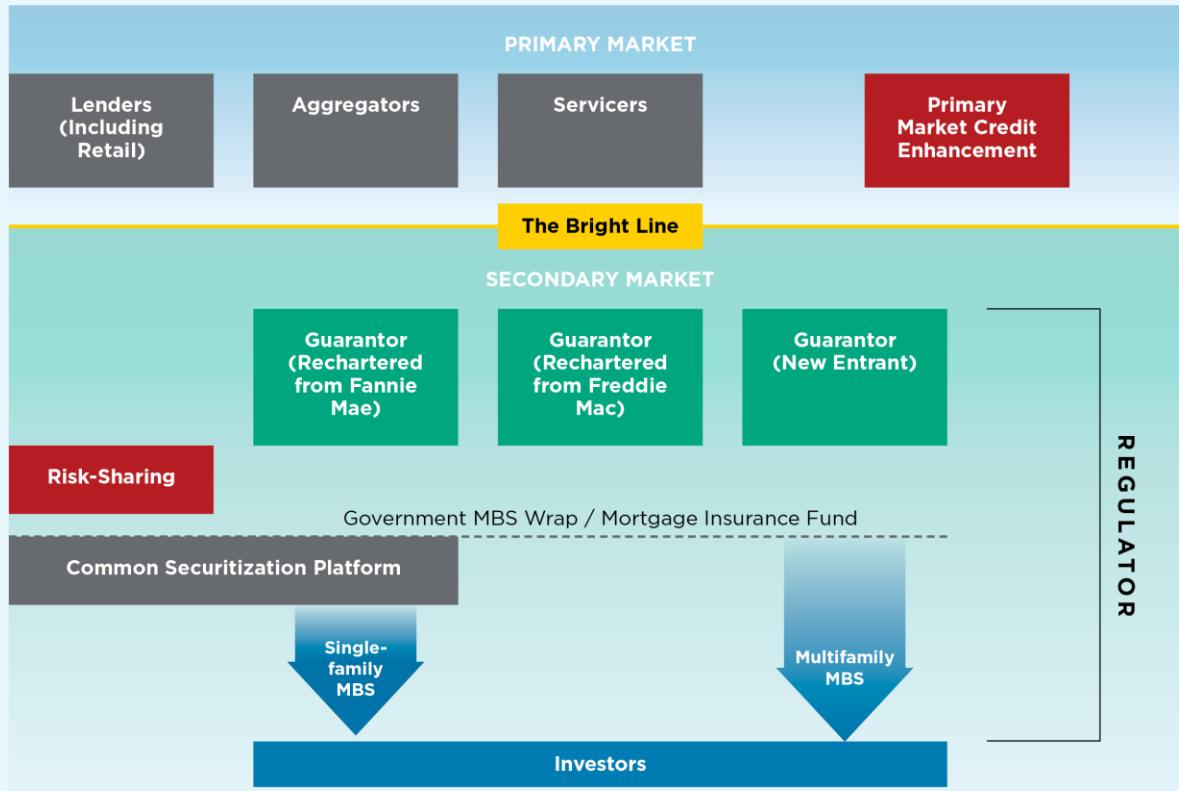


# Guardrails



- New system must work within certain guardrails and protections
- Guardrails intended to address risks to taxpayers, consumers and stability of the housing finance system:
  - **Structural Requirements** to govern the framework for the new system
  - **Prudential Standards** that protect taxpayers
  - **Market Conduct Regulations** that maintain transparency and ensure a level playing field for market participants

# End State Model



# Three Phases of Transition

At outset: Congress enacts legislation that specifies the end state and outlines the transition process

- Phase 1: Preparation
  - Planning; regulations; creation of MIF; CSP transition; single MBS for single-family market; formation of new entity structures; technology readiness; acceptance of new entrant applications
- Phase 2: Implementation
  - Transfer of GSE assets; regulatory chartering of Guarantors; wind down of GSEs; start-up and operation of single-family and multifamily Guarantors, including issuance of MBS backed by MIF; build-up of Guarantors' capital base; action on new entrant applications
- Phase 3: Divestiture
  - Government sale of its interests in the GSE-successor Guarantors to private investors; continued regulation and operation of Guarantors under new framework

# The Continuum

- Core GSE purchase activities
  - GSE can partner as debt buyer; other direct funding required
  - Private market
- AMI — Area Median Income

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Affordable Rental  
(with and without  
subsidies)

Affordable  
Homeownership

TBA  
Conforming

Prime Jumbo

Moderate Income and  
Market-Rate Rental

30% AMI

50% AMI

80% AMI

120% AMI

EXISTING PROGRAMS

- |                                                                                                                                                |                                                                                                          |                                                                                                                                                     |                                                                                                               |                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• LIHTC</li><li>• Section 8</li><li>• HOME</li><li>• National Housing Trust Fund</li><li>• CRA</li></ul> | <ul style="list-style-type: none"><li>• GSE MF targeted programs</li><li>• LIHTC</li><li>• CRA</li></ul> | <ul style="list-style-type: none"><li>• GSE high LTV SF purchase programs</li><li>• GSE MF activities</li><li>• FHA/VA/USDA</li><li>• CRA</li></ul> | <ul style="list-style-type: none"><li>• GSE core SF purchase activities</li><li>• GSE MF activities</li></ul> | <ul style="list-style-type: none"><li>• Private market</li><li>• Outside SF government eligibility</li></ul> |
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## The Three Affordable-Housing Missions

**Expanding Access  
to Affordable  
Mortgage Credit**

**Preserving  
and Developing  
Affordable Rental  
Housing**

**Improving  
Liquidity for  
Underserved  
Segments of the  
Mortgage Market**

# Questions?