GSE REFORM —
WHAT YOU NEED TO KNOW

MBA's Road Map for the Housing Finance System
A successful secondary mortgage market needs to produce a more stable and competitive system for lenders.

Nearly seven years after being placed in conservatorship, Fannie Mae and Freddie Mac continue to play a central role in the U.S. mortgage market. Congress is considering legislative proposals to reform the secondary mortgage market, and these efforts could gain momentum.

MBA believes a successful secondary mortgage market needs to produce a more stable and competitive system for lenders. Any transition to an improved system must retain and redeploy key aspects of the GSEs’ existing infrastructures, including certain operational functions, systems, people and business processes.

In order to prevent disruptions to day-to-day business activities of lenders and to ensure a fair, competitive and efficient secondary mortgage market, any new proposal must be carefully phased in.

**MBA’s Principles for the Future of the Secondary Mortgage Market**

MBA believes that the secondary market should:

- Ensure equitable, transparent and direct access to secondary market programs for lenders of all sizes and business models;
- Preserve key GSE assets — technology, systems, data and people — by transferring them to any new entities created by GSE reform, or placing them into a public utility;
- Promote liquidity and stability by connecting global capital to the U.S. mortgage market;
- Provide an efficient means of hedging interest rate risk through a robust TBA single-family market;
- Provide for a consistent offering of core products, including the 30-year, fixed-rate, prepayable single-family mortgage, as well as multifamily mortgages that support the vital rental housing market;
- Provide sufficient liquidity to ensure certainty on mortgage transactions for qualified borrowers; and
- Rely on a single, highly liquid, government-guaranteed, single-family security that is delivered through a common securitization platform, as well as government-guaranteed multifamily securities.
- Achieving these objectives will require:
- An explicit government guarantee for mortgage securities, backed by a well-defined class of high-quality single-family and multifamily mortgages;
- Protection for taxpayers through deep credit enhancement that puts private capital in a first-loss position, with no institution too big to fail; and
- Fair and transparent guarantee fees to create an FDIC-like federal insurance fund in the event of catastrophic losses.
Any improved secondary mortgage system should utilize familiar and operationally reliable business systems and processes of the current GSE model.

Whether by Congressional action or FHFA's activities as regulator/conservator, change to the secondary mortgage market can't be avoided. Additionally, the lack of effective competition between the GSEs in the single-family mortgage market is having a negative effect on lenders large and small, regardless of business model. With both short- and long-term steps to improve the housing finance system, MBA is engaging with policymakers to shape the debate.

Core Components of a Future System

MBA believes that any improved secondary mortgage system should utilize familiar and operationally reliable business systems and processes of the current GSE model. It should also include components to ensure access for lenders of all sizes. Some examples of what the new model should deliver include the following functions:

- Cash Window/Whole Loan Execution;
- Multi-Lender Security Execution;
- Single-Loan Securitization;
- Servicing Retained Sales;
- Servicing Released Sales; and
- Retain Multifamily Executions that Incorporate Private Capital.

Single-family lenders should be able to utilize familiar credit enhancement options, such as mortgage insurance, to facilitate secondary market transactions in a timely and orderly way. Key functions present in today’s secondary market system should be preserved, while allowing new forms of private credit enhancement to develop over time.

The future system also should build upon the strengths of the GSEs’ multifamily businesses that have incorporated substantial risk sharing with private capital and disciplined underwriting. Multiple guarantors should work with lenders to provide ongoing liquidity in all market cycles, in competition with a range of capital sources that finance multifamily rental housing.

Policymakers must establish clear and effective guidance to the GSEs to sustainably serve lower and moderate income earners.
There are important steps that can be taken now — without legislative action — to improve current secondary market operations...

Improving the Secondary Mortgage Market Today

Although Congress is certainly engaged in the debate over the future of the GSEs, the legislative path for structural reform could still take years. MBA believes there are important steps that can be taken now — without legislative action — to improve current secondary market operations, enhance competition and ensure a smooth transition to any future end state:

1. Address the trading and liquidity differential between Fannie MBS and Freddie PCs by making the securities fungible for TBA delivery or driving towards a common security.

2. Implement up-front and back-end risk-sharing options to allow lenders to secure deeper credit enhancements in exchange for lower guarantee fees and Loan-Level Price Adjustments, which will bring price transparency and competition to consumers.

3. Strengthen small-lender execution options and provide equal access to existing GSE programs for all qualified lenders.

4. Develop a clear approach for defining the credit box for the GSEs, in order to prevent a tightening of credit should the GSE “patch” in the Qualified Mortgage rule be eliminated. A related effort is to produce a common framework for representations and warranties to provide lenders the certainty and confidence to lend to the full extent of the allowable credit box.

5. Provide greater private sector input into the development of the Common Securitization Platform (CSP) to ensure its maximum utility for the entire single-family mortgage market.

6. Prepare for the future of the multifamily rental housing market by preserving the infrastructure, expertise and a government role with regard to the two GSE multifamily businesses, and explore their stand-alone capabilities as a transition step.

Conclusion

MBA recognizes that successful secondary mortgage market reform needs to produce a more stable and competitive system for all lenders, with greater protections for borrowers and taxpayers. This system would utilize familiar and operationally reliable business systems, processes, and personnel from the current GSE model. It is essential that any new system be accessible by lenders of all sizes and business models. A robust and competitive marketplace benefits everyone, including borrowers, taxpayers, and our system.