

HOUSING FINANCE REFORM

TALKING POINTS

GOALS

- PRESERVE THE 30-YEAR FIXED RATE MORTGAGE.
- RETAIN A LIQUID MORTGAGE MARKET.
- AVOID MARKET DISRUPTIONS DURING ECONOMIC DOWNTURNS.

GSEs: A HISTORY

- The Government Sponsored Enterprises were created by Congress—Fannie Mae in 1918 and Freddie Mac in 1970—to facilitate a national housing finance market. They package pools of mortgage loans for sale to investors.
- They were shifted to private ownership but with an implicit government guarantee to cover debts in case of default.
- The GSEs transformed the American mortgage system by setting standards for the mortgages they financed and providing liquidity of credit, which lowered interest rates, driving ownership up.

THE GSES OF 2020

- The Federal Housing Finance Agency—created by Congress to reform and regulate the GSEs' structure, leadership, and business practices—became conservator.
- Qualified mortgages, ability-to-repay standards, adequate guarantee fees and reserves, and other reforms have restored GSEs' profitability and their role as standard bearers of the housing finance system.
- But political pressures threaten to undercut the GSEs and their essential role.

THE NAR VISION

- Re-charter Fannie Mae and Freddie Mac as privately held utilities.
- Maintain regulatory changes the FHFA has developed for products, rates, and operations, while retaining mortgage market liquidity.
- The GSEs would continue to have public goals while benefiting from private expertise and efficiency. The utility model would protect taxpayers, provide a national securitization infrastructure, and ensure competition on service, not standards.



2008: CONSERVATORSHIP

- Changes in the mortgage market in the 1990s led to expansion of the subprime market, which charged higher interest rates on risky mortgage products to borrowers with weak credit histories.
- Fannie and Freddie invested billions of dollars in risky private label securities and did not set aside enough money to cover losses.
- In 2008, during the foreclosure crisis, the federal government stepped in to save the U.S. housing market with a \$190 billion bailout of the GSEs and took the companies into conservatorship.

WHAT'S NEXT?

- Private capital must be involved in the secondary mortgage market to limit the exposure of taxpayers and reduce the risk of future bailouts.
- But private capital won't invest in the GSEs as long as FHFA controls them and without an explicit federal guarantee.
- Only bipartisan agreement can provide a permanent structural change and an explicit guarantee.

