



GSE Reform: Where Have We Been...And Where Are We Heading?

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Why GSE Reform?

- ***Severe problems exposed by the financial crisis***
 - Unclear government role in supporting private entities with public charters
 - Market dependence on a small number of firms not subject to strong competition
 - Incentives for aggressive growth / market share targets
 - Intertwining of mortgage credit risk exposure and market infrastructure
- ***Continuing problems with the status quo***
 - Government conservator effectively managing the secondary mortgage market
 - Uncertainty about the future of the market
 - Excessive taxpayer exposure to mortgage credit risk

Major Issues and Considerations

- ***Role of the government in guaranteeing mortgage credit***
 - Options
 - Guarantee mortgage-backed securities
 - Guarantee firms that issue mortgage-backed securities
 - No explicit government guarantee of mortgage credit
 - If a guarantee of some kind, what protections for taxpayers?
- ***Role of the government in promoting affordable housing and access to credit***
 - Fees / Goals / Duty to Serve
 - Market share of government-supported lending
- ***Structure of the secondary mortgage market***
 - Options
 - Keep Fannie / Freddie
 - Reconstitute Fannie / Freddie (guarantors, lender-issuers, government corporation)
 - Eliminate Fannie / Freddie

Where Have We Been?

- ***Legislative reform efforts***

- Dodd-Frank (2010)
- PATH Act (2013)
- Corker-Warner (2013)...Johnson-Crapo (2014)
- 2018?

- ***Reforms undertaken by FHFA in its role as conservator***

- Fairer access to the secondary market for all types of lenders
- Credit risk transfers
- Reduced Fannie / Freddie portfolios
- Common Securitization Platform / Single Security

Prominent Reform Plans

- ***Mortgage Bankers Association***

- Private guarantors, including a reconstituted Fannie / Freddie, are subject to utility-style regulation and issue MBS with an explicit government guarantee at the security level

- ***Milken (DeMarco-Bright)***

- Reconstituted Fannie / Freddie operate as lender-owned mutuals, with Ginnie Mae-approved lenders issuing MBS with an explicit government guarantee at the security level after obtaining either government or approved private sector credit enhancement

- ***Parrott et al. (A More Promising Road to GSE Reform)***

- Fannie / Freddie are merged into a government corporation that provides an explicit government guarantee on MBS that it issues while transferring non-catastrophic credit risk to the private sector

- ***Moelis***

- Recapitalize Fannie / Freddie as shareholder-owned insurers with the existing Senior Preferred Stock Purchase Agreements serving as explicit but limited government support that is wound down over time

Where Are We Heading?

- **Senate**

- Series of hearings at the Senate Banking Committee
- Senators Corker and Warner drafting legislation...speculation regarding Q1 2018 release

- **House**

- Series of hearings at the House Financial Services Committee
- Chairman Hensarling announces openness to models that deviate from the PATH Act
- Potential for drafting of legislation...no imminent release expected

- **Administration**

- Treasury Secretary Mnuchin commitment to GSE reform
- New FHFA director in early 2019

Questions?