



GSE Reform

Contact: Blair Bernstein, ABA Public Relations (202) 663-5468 or bbernste@aba.com

GSE reform is essential to the stability of the housing market.

- FHFA has begun to take administrative action to move GSE reform forward. While that is constructive, Congress has an essential role in providing the certainty necessary to ensure long-term stability of the housing finance system.
- Reform need not be radical or extreme, but comprehensive. Legislation does not need to create an entirely new secondary market structure. In fact, relatively tailored legislation that takes a surgical approach to making necessary alterations to the current system is desirable and can achieve needed comprehensive reform.

The continued conservatorship of Fannie Mae and Freddie Mac is not sustainable.

- While FHFA has taken steps to allow Fannie Mae and Freddie Mac to rebuild limited capital, more must be done to ensure that they are appropriately capitalized. American taxpayers are still backing their operations.
- Ultimately, Congress will have to act to make permanent, necessary reforms and to end the conservatorships of the GSEs.

The role of the government in housing finance should be reduced.

- The ultimate goal should be a private market for the vast majority of housing finance and a smaller government role focused primarily on ensuring market stability. This transition period should be done with caution over a period of years.
- Ensuring reasonable loan limits for GSE purchases and sound underwriting are key mechanisms for transitioning to a private market. FHFA and CFPB are taking positive steps in regard to both, but Congress needs to lock in permanent reforms.
- Risk sharing arrangements being undertaken by the GSEs and the private sector are an encouraging development but more work to further limit taxpayer risk and to ensure equitable access by all market participants is needed

ABA has put forth guiding principles for GSE reform, which were developed with input from bankers at institutions of all sizes across the country. The principles state that:

- GSEs must be strictly confined to a secondary market role; agree to support all segments of the primary market; carry an explicit, fully-priced and fully transparent guarantee from the federal government for all mortgage backed securities; be capitalized appropriately; and have sound and fair underwriting standards.
- Additionally, any reforms need to preserve the “To Be Announced” (TBA) market, consider and protect the vital role played by the Federal Home Loan Banks, allow Credit Risk Transfers required by FHFA to be continued and expanded, and require any affordable housing efforts undertaken by the GSEs to be delivered through and driven by the primary market.

Background

Congress has created a number of Government Sponsored Enterprises (GSEs) over

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the years to close perceived gaps in our nation's capital markets for housing and agriculture. Generally speaking, the GSEs are wholesale lenders, except for the Farm Credit System which is a retail lender to rural Americans (See "Farm Credit System" for more).

GSE funding to the housing market takes two forms: (1) front-end funding through advances from the Federal Home Loan Banks; and (2) back-end funding through purchase of mortgages by Fannie Mae and Freddie Mac.

The Federal Home Loan Banks have performed as intended – providing credit to community and regional banks to support mortgage lending – and therefore should not be damaged by any reform efforts.

For more information about ABA's view on GSE reform, go to <https://www.aba.com/Advocacy/Issues/Pages/gse-reform.aspx> .