



GSE Reform

Contact: Sarah Grano, ABA Public Relations (202) 663-5470 or sgrano@aba.com

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

- Fannie Mae and Freddie Mac are operating without capital. Only American taxpayers are backing their operations.
- In the event of another crisis, even a relatively small one, more taxpayer dollars will be needed unless reform is undertaken.

The role of the government in housing finance should be dramatically 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 other key mechanisms for transitioning to a private market.
- Risk sharing arrangements being undertaken by the GSEs and the private sector are an encouraging development but more work to limit taxpayer risk and to ensure equitable access by all market participants is needed
- Ultimately Congress will have to act to make permanent necessary reforms and to end the conservatorships of the GSEs.

Background

Congress has created a number of Government Sponsored Enterprises (GSEs) over 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. These GSEs have become major competitors with private lenders in their primary role as credit wholesalers, and some, especially the Farm Credit System, propose to become even more so through "mission creep."

Non-government competitors argue that GSEs are afforded an unfair competitive advantage due to their now explicit federal backing. GSEs operate free from market and pricing pressures, as the government has vowed to fill capital shortfalls through an explicit guarantee. This federal backing and the fact that Fannie and Freddie are operating with virtually no capital base, put taxpayers at great risk.

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 <http://www.aba.com/Issues/GSE/Pages/default.aspx>.