

Housing Finance Reform

On February 11, Treasury and HUD released the Obama Administration's white paper on housing finance reform, "Reforming America's Housing Finance Market: A Report To Congress." The paper proposes several policies to gradually wind down the Government-Sponsored Enterprises Fannie Mae and Freddie Mac (the GSEs) and three major options for long-term secondary market reform.

To decrease the GSEs' role in the secondary market, the paper proposes increasing guarantee fees, lowering the maximum mortgage limits for GSE guarantee and securitization, and gradually increasing the minimum down payment required for loans to be eligible for GSE guarantees to 10 percent.

The paper's three main options for long-term reform are: a privatized system that provides a government guarantee only for FHA, USDA, and VA loans to narrowly targeted groups of borrowers; establishing an explicit government guarantee for mortgage-backed securities on a strictly limited basis during times of crisis; and offering an explicit government guarantee through government reinsurance for securities issued by private mortgage guarantor companies that meet stringent capital and oversight requirements and issue securities backed by mortgages that meet strict underwriting standards.

The paper also proposes Federal Housing Administration (FHA) mortgage insurance program changes to ensure that the private sector, not FHA, picks up new market share as the GSE role diminishes. These changes include lowering the FHA conforming loan limits and increasing FHA's annual mortgage insurance premium by 25 basis points.

On affordable housing, the paper calls for reforming and strengthening the FHA; ensuring Federal Home Loan Bank (FHLB) support for small- and medium-sized financial institutions; rebalancing our housing policy and strengthening support for affordable rental housing; and ensuring that capital is available to credit-worthy borrowers in all communities, including rural areas, economically distressed regions, and low-income communities. The paper proposes a "dedicated, budget-neutral financing mechanism" to support homeownership and "rental housing for the lowest-income families to address serious supply shortages, similar to the Housing Trust Fund that the President has proposed to be capitalized."

The House Financial Services Committee has scheduled a series of hearings to discuss housing finance reform. Several Republican House Financial Services Committee leaders have called for legislation to wind down the GSEs and avoid a government guarantee that would expose the federal government to potential losses. The Senate Banking Committee is also likely to hold hearings on housing finance reform this year.

NCSHA's 2011 legislative priorities call for a strong secondary mortgage market system with a robust affordable housing mission that engages HFAs as preferred affordable housing lending partners in meeting the needs of low and moderate-income families, enables them to fully implement their lending programs, and responds to their capital and liquidity needs.