

Housing Finance Reform and Taxpayer Protection Act

Title 1: Establishment of the Federal Mortgage Insurance Corporation (FMIC)

- The FMIC will be modeled after the FDIC in that it will collect insurance premiums and maintain a deposit fund on all outstanding obligations. The FMIC will provide backstop insurance that will only kick in after a substantial amount of private capital is exhausted. The purpose is to simultaneously bring in credit investors who bear the risk of default while maintaining liquidity for the housing finance system.
- The FMIC director will be a technocrat with experience in housing finance and serve a five-year term.
- The FMIC will have a board of directors comprised of five members.
- An Office of the Inspector General (OIG) will be established within the FMIC to report annually to Congress.
- The Government Accountability Office (GAO) will conduct annual audits of all FMIC reports, models and assumptions.

Title 2: Authorities and Duties of the FMIC

- The FMIC will capitalize the housing finance system by separating credit risk from interest rate risk, and bringing in private capital to take on both. All of these risk sharing options will have a minimum of 10 percent equity. In addition to this capital buffer, FMIC will also leave the securitization and insurance functions to private market participants.
- Every mortgage-backed security issued through FMIC will have a private investor bearing the first risk of loss and holding at least 10 cents in equity capital for every dollar of risk. Ten percent is more than double the total loss severity experienced by Fannie and Freddie between 2007 and today. This private capital buffer could have prevented taxpayer assistance following the housing crisis.
- Loan level mortgage insurance will not count toward the 10 percent capital requirement.
- New loans will not have to go through FMIC; only ones that desire the government guarantee.
- To get the government out of the business of guaranteeing millionaires' homes, loan limits will be gradually reduced.
- Sunset provision: After year eight, the GAO will issue a study on the feasibility of a fully privatized market. Six months later, Congress will consider recommendations to wind down the FMIC entirely. The FMIC, including its OIG, will present reports to Congress annually outlining a reasonable plan to increase private market participation.

Title 3: Transfer of Power to FMIC from FHFA

- The Federal Housing Finance Agency (FHFA) will be abolished after the FMIC is established. All staff, infrastructure, technology and other resources are transferred over to FMIC upon this date. The director of the FMIC will manage the transition and have the ability to utilize, transfer or sell the assets and resources of the FHFA and GSEs.

Title 4: Mortgage Access Fund Established

- The failed "Affordable Housing Goals," which we now know forced Fannie and Freddie to make half of all lending to borrowers below the median income level, will be eliminated.
- In their place, 5-10 basis points of every loan securitized by the FMIC will go into a Market Access Fund, explicitly priced and on balance sheet, with purposes such as maintaining access to affordable rental housing, making grants to state housing agencies, and conducting borrower counseling programs at the state and local level.
- The fund will not be paid for with tax dollars, but through a small FMIC user fee, with reporting and transparency requirements.
- The purpose of this section is to separate affordable housing goals from the administration of a risk-based guarantee with a paradigm that simply focuses on ensuring there is sufficient decent housing available, even if it is rental property.

Title 5: Wind down of Fannie Mae and Freddie Mac

- The GSEs will be completely dissolved.
- The wind down will begin immediately and proceed as expeditiously as possible, with a fiduciary duty to maximize returns to the taxpayer as remaining assets are sold off.
- The charters will be revoked on the FMIC establishment date, no later than five years after passage.

Title 6: Improvements to the Functioning of the Housing Market

- The multifamily guarantee business of Fannie and Freddie will be transferred to FMIC and remain intact.
- Second-lien lenders will be required to obtain approval of first-lien holders if a credit transaction increases the borrower's combined LTV to 80% or more.
- The GAO and FMIC will report on the feasibility of maintaining a fully privatized system.

Title 7: General Provisions

- FMIC will have the authority to issue regulations.
- Any analysis of the activities of the FMIC will be subject to fair-value accounting.