

Housing Finance/GSE Reform - Resource Materials (12/13/2011)

Prepared by Citizens' Housing and Planning Association

Treasury/Administration Proposal (Feb 2011)

Press release <http://www.treasury.gov/press-center/press-releases/Pages/tg1059.aspx> and full proposal <http://www.treasury.gov/initiatives/Documents/Reforming%20America%27s%20Housing%20Finance%20Market.pdf>

Overview on legislative activities

- Discussion of all bills introduced through July 2011: See N. Eric Weiss, "[Proposals to Reform Fannie Mae and Freddie Mac in the 112th Congress](#)", Congressional Research Service, July 25, 2011. It notes that the bills filed this year have varied goals including allowing other securitizers to compete more effectively with the GSEs by reducing or eliminating advantages the GSEs currently enjoy, increasing their cost of business through new fee, capital or regulatory filing requirements, or limiting the types of mortgages the GSEs can purchase. Some set deadlines for the dissolution of the GSEs without a replacement, while others create replacement entities for the secondary market. Several also amend elements of Dodd-Frank, including the Qualified Residential Mortgage (QRM) provision.
- Another discussion of legislative activities since Treasury proposal with a focus on affordable housing: <http://www.housingfinance.com/ahf/articles/2011/september/0911-specialfocus-Game-On.htm>

White Papers

- Center for American Progress Proposal (January 2011) http://www.americanprogress.org/issues/2011/01/responsible_market.html
- National Groups "Principles for Restoring Stability to the Nation's Housing Markets" March 2011 sign-on letter <http://www.ncsha.org/resource/principles-restoring-stability-nation%E2%80%99s-housing-finance-system>
- National Multi Housing Council (NMHC) – Multifamily Perspective http://www.nmhc.org/Content/ContentList.cfm?NavID=425#The_Case
- American Enterprise Institute: "No Federal Guaranty for Multifamily and Other Ideas for Multifamily Housing Finance Reform"
- National Housing Conference's principles on multifamily and white paper <http://www.nhc.org/media/NHC-Urgues-Policymakers-to-Strengthen-the-Nations-Multifamily-Finance-System.html> and http://www.nhc.org/media/files/Recap_NHC_GSE_Core_Functions.pdf.

2011 Legislation Filed

The National Multifamily Housing Council has a [summary](#) of the bills with links to the bill text.

1. Narrow-Focus bills

Between March and May 2011, Republican members of the House Financial Services Committee introduced 15 bills to modify GSE powers and activities. The Subcommittee on Capital Markets and Government Sponsored Enterprises has approved 14 to date (all but H.R. 2428). The 15 bills include:

- H.R. [1221](#) - Rolls back executive Fannie and Freddie compensation to levels allowed for senior federal employees
- H.R. [1222](#) - Requires GSE to increase their mortgage guaranty fees to level private financial institutions charge
- H.R. [1223](#) - Eliminates GSE exemption from the "Qualified Residential Mortgage" risk retention rule for securitizations
- H.R. [1224](#) - Requires Fannie, Freddie to reduce their portfolio holdings to \$250 billion in 5 years, rather than 11
- H.R. [1225](#) - Requires Treasury to approve any GSE debt issuance and submit to Congress 7 days in advance of issue
- H.R. [1226](#) - Repeals GSE affordable housing goals

H.R. [1227](#) - Bans FHFA from approving any new Fannie or Freddie products while in conservatorship or receivership

H.R. [31](#) - Expands FHFA Inspector General's powers and requires very detailed quarterly to Congress on GSE activities

H.R. [463](#) - Makes Fannie and Freddie subject to FOIA during conservatorship or receivership

H.R. [2428](#) - Requires FHFA to set limits on legal fees paid with federal funds for current/former officers, affiliates

H.R. [2436](#) - Prevents a reduction in the annual dividend rates paid by Fannie, Freddie to Treasury

H.R. [2439](#) - Authorizes FHFA to revoke the charter of Fannie and/or Freddie (currently only Congress has this power)

H.R. [2440](#) - Requires FHFA to identify "non-mission critical" assets of Fannie, Freddie (including patents and mortgage data) and develop plan to sell or dispose of (including making historical mortgage data available to public)

H.R. [2441](#) - Terminate National Housing Trust, Capital Magnet and HOPE Reserve Funds and required GSE contribution

H.R. [2462](#) - Make the currently agreed upon maximum support Treasury can provide to Fannie, Freddie a statutory cap

2. House Republican Comprehensive Proposals

[H. R. 408](#) (Title VI)/S.178 and [HR 1182](#)/S.693 - both called the **GSE Bailout Elimination and Taxpayer**

Protection Act - were introduced in January and March 2011 and are similar. Both would:

- allow FHFA to set and enforce minimum capital standards
- terminate the GSEs' conservatorship in 24 months (H.R. 408 allows an extra 6 months if FHFA determines necessary), returning them to stockholder control and winding them down over 10 years OR putting them into receivership and dissolving them. It would terminate affordable housing goals at the end of the conservatorship and require a reduction in portfolio size to \$250 billion within four years (H.R. 1182 requires earlier reduction).
- set conforming loan limit at \$417,000 nationwide with no high cost exceptions and limit purchases to loans not exceeding area median home purchase price
- would limit GSE loan purchases to mortgages with a minimum downpayment of 5% during first year after leaving conservatorship, then 7.5% during the second year and 10% thereafter.
- would require GSEs to pay all state and local taxes (not just property taxes)
- would require GSEs to register all stock and public offerings with SEC (subordinated debt also under H.R. 1182)
- FHFA would be required to charge GSEs for the value of benefits provided by the government (H.R. 408 only)

H.R. 1182 also includes some elements from the narrow-focus bills, including increasing the guaranty fee and prohibiting a reduction in dividends to the Treasury.

H.R. (no number yet) - Private Mortgage Market Investment Act Unveiled by Representative Scott Garrett (R-N.J.) on October 27, 2011 in the form of a [discussion draft](#), this bill would reform the private secondary mortgage market by setting uniform standards. As described in a [summary](#) by *Housing Wire*, it would set uniform underwriting standards, buyback requirements in the event of default, and abolish the Dodd-Frank risk retention requirement. It would also set rules for loan modifications and reporting, address conflicts of interest between servicers and investors, and require more data disclosure to investors, including some loan level data. The House Financial Services Committee held hearings on the bill on [November 3](#) and [December 7](#).

3. Senate Republican Bills

[S.1834](#) - **Residential Mortgage Market Privatization and Standardization Act of 2011**- introduced November 9, 2011 by Senator Robert Corker (R-Tenn) - would phase out GSEs over 10 years by reducing

their guarantee (in year 1, could only guarantee 90% of a bond, in year 2, no more than 80%, etc. (the limit would fall by at least 10% each year with FHFA setting the new limits) and not replace them. It would also:

- replace the QRM standard with one requiring a minimum 5% downpayment and full, uniform documentation; allows waiver of 5% minimum on loans originated by approved nonprofits
- create a new public database on all federally regulated single- and multi-family mortgages, with detailed information on loan characteristics, terms, lender, property address, etc. and for multifamily loan, details on use of total units, occupancy status, rents and use of rent subsidies. Would also require at least monthly data on payment status of each loan
- Replaces MERS with a national database for all mortgage title transfers (to be regulated by FHFA)
- create uniform servicing standards (a uniform pooling and servicing agreement) for securitized mortgages, based on current GSE pooling and servicing agreements, and uniform loss mitigation procedures including a single point of contact, a national NPV model and “national standards for the foreclosure process”
- allow private investors to acquire any technology, home price indices, systems, etc. Fannie and Freddie now own
- Press release http://corker.senate.gov/public/index.cfm?p=News&ContentRecord_id=ae9ae669-7888-4327-9e4a-ffe73bf66421 (links to both summary and full text of bill)
- Summary http://corker.senate.gov/public/?a=Files.Serve&File_id=24bc346a-cbb3-4f97-bc5b-9bfee897c737

S. (no # yet) - [Mortgage Reform Act of 2011](#) - introduced by Senator Johnny Isakson (R-GA) on December 8, 2011 - would eliminate Fannie Mae and Freddie Mac within 18 months of bill enactment by putting them into receivership and requiring the FHFA to liquidate their assets. Liquidation proceeds would go to repay GSE bailout costs.

- To take their place, the bill would create a new temporary federal Mortgage Finance Agency (MFA) to guarantee privately securitized single- and multi-family mortgages originated, or purchased, and serviced by approved lenders. The MFA would not hold loans in portfolio.
- The mortgages would have to meet MFA quality standards. The MFA would charge guarantee fees priced to capitalize a new catastrophic fund, cover any losses, and once that fund is fully capitalized, to cover operating costs and purchase supplemental private sector insurance.
- The bill would broaden the definition of QRM to include mortgages with a downpayment of at least 5% as long the private mortgage insurance was purchased.
- It would also require the sale of the MFA within 10 years of its creation, with proceeds going to repay any unrecovered GSE bailout costs. The MFA would be required to develop a plan for this sale within 3 years of bill enactment and begin implementation within 5 years of bill enactment.
- A brief press release and links to a bill summary can be found on the Senator’s [website](#)

4. Bipartisan Bills

[HR 1859](#) – Housing Finance Reform Act of 2011 - introduced May 12, 2011 by House Financial Services Committee members John Campbell (R-CA) and Gary Peters (D-MI). Would wind down Fannie Mae and Freddie Mac and replace with new federally-chartered “housing finance guaranty associations”

- Analysis: <http://www.ncsha.org/resource/housing-finance-reform-act-2011-hr-1859> (upper right corner)

[S.1835/H.R. 940](#) United States Covered Bond Act Sen. Kay Hagan (D-NC) and Sen. Bob Corker (R-Tenn) introduced a bill (S.1835) on November 9, 2011 to support the development of a covered bond market. The House Financial Services Committee approved a similar bill (H.R. 940) with bi-partisan support in June. See [Housing Wire](#) and Center for American Progress [testimony](#) for a description of how covered bonds work and concerns about risks.

H.R. [2413](#) - Secondary Market Facility for Residential Mortgages Act of 2011 Introduced in July 2011 by Rep. Gary Miller (R-CA) and Rep. Carolyn McCarthy (D-NY) - would replace Fannie and Freddie with a new federal corporation to buy and securitize single and multifamily mortgages that meet certain underwriting

standards (including a maximum LTV of 80% unless there was 10% risk retention or private mortgage insurance in which case the maximum could be 90%). It would require the corporation to charge risk-based fees set to keep its market share below 50% except in unusual circumstances, as well as a reinsurance fee to cover the cost of a Treasury backup guarantee. Caps mortgage assets the corporation can own at \$250 billion initially, with annual adjustments for inflation. It does not mandate affordable housing goals.

2011 Congressional hearings

(with links to testimony)

House Financial Services Committee - [March 1](#), 2011; [March 11](#), 2011 (covered bonds); [March 31](#), 2011; [May 25](#), 2011; [September 7](#), 2011; [October 13](#), 2011

Senate Banking Committee - [March 29](#), 2011; [May 26](#), 2011; [June 28](#), 2011; [August 2](#), 2011; [August 3](#), 2011; [September 13](#), 2011; [September 14](#), 2011; [October 20](#), 2011