

MAIN STREET GSE REFORM COALITION

COMMON GSE REFORM PRINCIPLES

Introduction

For a variety of reasons, the time has come to end the conservatorships of Fannie Mae and Freddie Mac. The nation's homeownership rate is hovering near a 50-year low, and the gap between the demand for and availability of affordable rental housing continues to widen. As Congress once again faces tight annual spending caps and sequestration cuts enacted by the Budget Control Act of 2011 and with sweeping tax reforms on the table, federal support for homeownership and affordable housing efforts will be in the cross hairs. Substantial profits at the government-sponsored enterprises (GSEs) generated from a 250 percent increase in their guarantee fees and improvements in the performance of the single-family and multifamily books of business should be used to support affordable housing finance and build appropriate capital reserves at the Enterprises. Instead critical investments in affordable housing are being swept into the general fund of the U.S. Treasury to pay for a multitude of non-housing related purposes and the Enterprises are at risk of having to guarantee much of the nation's mortgage credit risk with a zero-capital buffer starting in January 2018.

Because of the Housing and Economic Recovery Act (HERA) of 2008 and administrative reforms undertaken by the Federal Housing Finance Agency (FHFA) acting as Conservator, critical "GSE Reforms" have already been achieved. The primary objective of any GSE reform legislation should be to promote broad access to affordable, sustainable mortgage credit in all communities while minimizing risk to taxpayers. Affordable housing advocates and small and mid-sized lenders alike share the following principles - which are designed to increase competition, prevent financial concentration, and prevent artificial barriers to entry in the GSE loan origination market.

Create a Capital Buffer:

- Fannie Mae and Freddie Mac should begin rebuilding a capital buffer now, which could be done through a suspension of the dividend being paid on the preferred stock held by the U.S. Treasury. The guarantee fees being charged by Fannie Mae and Freddie Mac include the cost for holding capital reserves in case of future losses.
- The Enterprises should retain earnings for the purposes of building the capital buffer they are charging the market to hold, consistent with prudential management of financial institutions, and to avoid any market uncertainty.

Continue and Expand Reform:

- Maintain a strong independent regulator, FHFA.
- Full FHFA oversight and approval of operations, capital requirements, fees, charges and prudential standards.
- Full and equal access for all lenders regardless of size, including a prohibition on volume discounts with respect to both guarantee fees and risk-sharing pricing.
- Serve all markets, including underserved, rural and urban areas, equally.
- Expand access to all creditworthy borrowers and affordable housing through risk pooling, strengthening and ensuring compliance with the GSEs' affordable housing goals, enforcement of statutorily defined duty to serve obligations, and continued funding of the Housing Trust Fund and Capital Magnet Fund.
- Prohibit any form of vertical integration in which primary market participants are granted the right to charter new GSEs, or use their aggregator status to gain a competitive advantage in mortgage loan origination.
- Expand risk reinsurance by the GSEs to reduce their overall risk consistent with an economic benefit, with prohibitions on market structures/actions that create an un-level playing field for loan origination.

Ending the GSEs' Conservatorship Responsibly:

- The FHFA, utilizing its authority under the Housing and Economic Recovery Act (HERA), should establish capital standards for Fannie and Freddie and direct the GSEs to draw up plans on how to meet those standards.
- Payment of an ongoing fee by the GSEs for maintenance of the existing Treasury line of credit or any explicit federal guarantee.
- FHFA should draw up and issue publicly a plan to release the GSEs from conservatorship upon instituting a capital restoration plan with specified capital standards.
- While we believe the critical GSE reforms have already been accomplished through the enactment of HERA and administratively by FHFA, any Congressional legislation should achieve and conform to the above principles.

Community Home Lenders Association

Community Mortgage Lenders of America

Leadership Conference on Civil and Human Rights

Leading Builders of America

National Association for the Advancement of Colored People

National Community Reinvestment Coalition