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GSE Reform

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Issue Update

Congress must determine the fate of Fannie Mae and Freddie Mac, the two government sponsored entities that were placed into conservatorship in 2008. Together, the GSEs own or guarantee more than half of the \$10 trillion U.S. mortgage market. Because this conservatorship puts U.S. taxpayers at risk, it is important that Congress develop a plan for shrinking the GSEs' outsized role in the housing finance market. Without a reduction in the role of Fannie Mae and Freddie Mac in housing finance, private enterprise will have difficulty competing to fill the needs of the market and the threat of future crises and taxpayer-funded bailouts will remain.

Why It Matters To Your Community

Accessibility and stability are essential to maintain a strong mortgage market. To ensure that qualified borrowers in all communities and geographical regions are able to secure mortgage financing, it is essential that a mix of private capital and government backing are maintained, and that access to the government's backing is accessible to all lenders in an equitable and fair manner.

Recommended Action Items

ABA believes the government's role in housing finance must be reduced and limited to ensuring access to the secondary market for lenders of all sizes, and to ensure stability and accessibility of the capital markets in the event of a market failure.

The overarching principle should be to give all sizes access to secondary market financing while ensuring the governmental entities do not compete directly with the private market. While the Federal Housing Finance Agency has made strides in reducing taxpayer exposure to the risks taken on by the GSEs, it remains up to congress to develop a consensus on broad reforms. ABA believes lawmakers should build upon the risk transfer mechanisms being developed by the GSEs at the behest of the FHFA and should take further steps to bring private capital back to the secondary mortgage market, while ensuring that any successor(s) to Fannie Mae and Freddie Mac are fully capitalized, and that the cost of any government guarantee provided is fully transparent and fully paid for.

Additionally, the Federal Home Loan Banks, GSEs that did not fail in the financial crisis but performed as intended ensuring that liquidity remained available, must not be harmed by any changes mandated for Fannie Mae and Freddie Mac. ABA urges both the Congress and the FHFA to "do not harm" when it comes to the Federal Home Loan Banks, either through direct legislative or regulatory action, or through unintended consequences of actions taken with regard to Fannie Mae and Freddie Mac.