Reform The Secondary Mortgage Market To Provide Certainty In The U.S. Housing Market

Congressional Action Needed:

Restructure the secondary mortgage market to ensure that affordable mortgages are available to consumers in all types of markets, and avoid a major disruption to the nation's economy that would result from the total collapse of the housing finance sector.

Congressional Actions to Date:

- The Senate Banking Committee is considering the Housing Finance Reform and Taxpayer Protection Act of 2014 (Johnson, D-SD; Crapo, R-ID), also referred to as the "Johnson-Crapo bill."
- Last year, the House Financial Services Committee passed H.R. 2767 (Garrett, R-NJ; Hensarling, R-TX), the Protecting American Taxpayers and Homeowners (PATH) Act.
- In the House, the Housing Opportunities Move the Economy Forward (HOME Forward) Act was introduced by Rep. Waters (D-CA).

What to Tell House Staff and Senators:

Enact housing finance reform that will:

- Ensure there is government participation in the secondary market;
- Safeguard the availability of long-term, fixed-rate mortgage products (i.e., 30-year FRM);
- Encourage private capital to return; and
- Provide consumers in all markets with access to affordable mortgage credit under all economic conditions.

Issue Background:

Fannie Mae and Freddie Mac were created to ensure that creditworthy borrowers had access to affordable mortgage capital no matter where they lived in the United States. For more than 70 years, the system worked well, combining government support and private capital to make affordable mortgages available to consumers. The system faltered during the housing collapse, and since 2008, Fannie Mae and Freddie Mac have been in conservatorship under the supervision of the Federal Housing Finance Agency (FHFA). During the last two sessions of Congress, there has been much discussion regarding the causes of the housing collapse, and the role that Fannie Mae and Freddie Mac played. It is unclear if any of the current proposals to overhaul the housing finance system will be signed into law this year.

Housing Finance Reform and Taxpayer Fairness Act (Johnson-Crapo Legislation)

Introduced by the Chair and Ranking Member of the Senate Banking Committee, the Johnson-Crapo bill has seen the most recent activity in Congress. The proposal replaces Fannie Mae and Freddie Mac with a new agency. The Federal Mortgage Insurance Corporation (FMIC) would regulate a new securitization platform and stand behind certain mortgages after the first 10 percent of losses on new loans are covered by private capital. FMIC also establishes an insurance fund, similar to the FDIC, which would shield taxpayers from having to support the corporation. The bill as drafted parallels many of NAR's GSE principles.

PATH Act

Last year, the House Financial Services Committee passed H.R. 2767, the Protecting American Taxpayers and Homeowners (PATH) Act, introduced by Representatives Garrett (R-NJ) and Hensarling (R-TX). NAR opposes the bill since it ends the federal guarantee for a secondary mortgage market; and dramatically restructures and greatly limits access to the FHA loan program.

HOME Forward Act

Representative Waters' (D-CA) measure, the HOME Forward Act, would wind down the GSEs and create a federal insurance fund to mitigate losses suffered by the private mortgage market. However, it does set up a lender-owned cooperative as the sole issuer of securities and requires that the private market take a smaller first-loss position (5 percent). NAR has not taken a position on this legislation.

Opposing Viewpoints

Critics believe that the elimination of a government role in the secondary mortgage market will better protect taxpayers and result in lower costs for borrowers.

NAR PRINCIPLES FOR A ROBUST SECONDARY MORTGAGE MARKET

An Efficient and Adequately Regulated Secondary Market is Essential to Providing Affordable Mortgages to Consumers

The secondary market, where mortgages are securitized, is an important and reliable source of capital for lenders, large and small, and therefore for homebuyers. Without a secondary market, mortgage interest rates would be unnecessarily higher and unaffordable for many Americans. In addition, a poorly functioning secondary market will impede both the housing sector recovery and the overall economy.

The Federal Government Must Clearly, and Explicitly, Offer a Guarantee of Some Mortgage Instruments

A federal guarantee is essential to ensure borrowers have access to affordable mortgage credit. Without government backing, creditworthy consumers will pay much higher mortgage interest rates, and mortgages may at times not be readily available — as has happened in the jumbo and commercial real estate loan markets.

The Government's Guarantee Should Ensure a Wide Range of Safe, Reliable Mortgage Products for Creditworthy Consumers

Available mortgage products should include 15-year and 30-year fixed rate loans, traditional adjustable-rate mortgages (ARMs), and other loan products that have stood the test of time, and for which American homeowners have demonstrated a strong "ability to repay."

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