

NAR August Legislative Update:

GSE Reform



ISSUE UPDATE

Fannie Mae and Freddie Mac (the GSEs) are critical to financing home purchases. The GSEs do not make home loans. Rather, they manage and insure the flow of money from investors in mortgages to lenders. In doing so, they guarantee mortgage availability for responsible, creditworthy Americans no matter where they live or what their region's economic conditions are.

In 2008, the GSEs were placed in conservatorship, a form of federal control where their regulator, the Federal Housing Finance Agency (FHFA), has significant reform and oversight authority. The FHFA removed leadership, terminated several business lines, reformed how the GSEs work with their counterparties (e.g. the private mortgage insurers and servicers), and altered a number of other business practices. However, conservatorship is a temporary status and a number of important questions remain, including what the GSEs' governance structure should be, whether there should be some form of government support, and what the public mission should be.

WHAT DOES THIS MEAN TO REALTORS® AND THEIR CLIENTS?

- Middle class Americans in both rural and urban communities benefit from the stability that GSEs provide to mortgage financing. Without entities like the GSEs, consumer access to mortgages would be significantly limited.
- Without the GSEs, mortgage rates would rise as much as 5% during a financial downturn, putting the American Dream out of reach for countless aspiring homebuyers.
- And, perhaps most importantly, without the GSEs' government guarantee, the 30-year fixed-rate mortgage would disappear.

STATUS IN CONGRESS

Congress has developed several proposals to reform the GSEs over the years but has not come to a consensus. However, all recent plans share some common elements, including private capital to take losses, taxpayer protections, oversight, a public mission that promotes a liquid, national market, and a government role in catastrophic situations. The President has requested a plan of action from the FHFA and HUD, which should come in late summer or early fall.

NAR'S ASK

As Congress debates the future of the GSEs, REALTORS® urge Congress to maintain a strong housing finance system that prioritizes access to financing for hundreds of millions of Americans to help fund their dreams.

REALTORS® urge Congress to consider NAR's Vision for Housing Finance Reform, released earlier this year, which proposes a new, shareholder-owned utility model that highlights competition and remedies the failures of the pre-crisis system.

Under NAR's plan, Fannie Mae and Freddie Mac would continue to purchase, guarantee and securitize single-family and multifamily mortgage loans, providing stable and affordable financing to credit worthy borrowers. The plan requires well-monitored participation by private investors, which protects taxpayers, consumers and the U.S. economy as a whole.

Only Congress can update the GSEs' charter to a utility, create a government guarantee, and provide clear support and guidance for the GSEs to support a public mission.