NAR Principles for Housing Finance Reform

November 13, 2019

NAR supports restructuring the secondary mortgage market to ensure a reliable and affordable source of mortgage capital for consumers, in all types of markets, to avoid a major disruption to the nation's economy that would result from the total collapse of the housing finance sector. Restructuring is required in response to the failure of Fannie Mae and Freddie Mac, which has been under government control since entering conservatorship in September 2008.

- **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 of all sizes and therefore for consumers. 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 recovery in housing sector and the overall economy.

- **The old GSE system with private profits and taxpayer loss must be replaced.** The current GSEs (Fannie Mae and Freddie Mac) should be replaced with government-chartered authority(s) that are subject to sufficient regulations on product, revenue generation and usage, and retained portfolio practices in a way that ensures they can accomplish their mission to support long-term mortgage financing and protect the taxpayer.

- **The existing GSEs or any subsequent authority(s) should support the housing market for homeowners and renters as outlined in their charters.** These authorities or any new authorities must be vehicles for providing ongoing assistance to the secondary mortgage market, promoting access to mortgage credit throughout the nation by increasing liquidity of mortgage investments and improving the distribution of investment capital. These activities must include, in part, support for mortgages to low and moderate income families, as well as, underserved areas at all times to qualified, properly underwritten borrowers for purchase or refinance of residential properties.

- **The existing GSEs or any subsequent authority(s) should innovate to support the public mission and to meet the unmet liquidity of the market.** To meet the obligations within their charters, the existing GSEs or any subsequent authority(s) should explore and develop programs to meet the changing needs of the market that are not well served by the purely private sector. The regulator should strive to protect the intellectual property of the entity(s) and their private partners as they develop new programs. All pilot programs should be vetted for market need, the impact on competition, as well as, the effect on safety and soundness of the entity(s).

NAR Principles for Housing Finance Reform

November 13, 2019

- **Reforms should ensure a strong, efficient financing environment for homeownership and rental housing.** The mission of the new authority(s) must include increasing sustainable homeownership, providing access to mortgage financing and refinancing for consumers who have demonstrated the ability to sustain homeownership. Creditworthy consumers require a steady flow of mortgage funding that, even during economic downturns, will continue to be available as insured by an explicit government guarantee.

- **The government must clearly, and explicitly, offer a guarantee of mortgage instruments facilitated by the authority(s) that meet the Qualified Mortgage (QM) standards.** This is essential to ensure qualified, properly underwritten borrowers have access to affordable mortgage credit. Without government backing, consumers will pay much higher mortgage interest rates and mortgages may at times not be readily available at all-as happened in jumbo and commercial real estate loans. Taxpayer risk would be mitigated through the use of mortgage insurance or another form of robust credit enhancement on loan products with a loan-to-value ratio higher than 80 percent, or through other fees paid to the government.

- **The new authority(s) should guarantee or insure a wide range of safe, reliable mortgage products.** These mortgage products include fixed rate loans such as the 30-year fixed rate mortgage, traditional adjustable-rate mortgages (ARMs), and other products that support the public mission and with which American homeowners demonstrated a strong "ability to repay."

- **Provide a self-sufficient mechanism whereby safe, sound, transparent, and insured Mortgage Backed Securities (MBS) may be packaged and sold.** There must be an option for an explicit government guarantee or insurance for all offered MBS within the secondary mortgage market. Furthermore, the guarantee should extend to other operations of the authorities that are required to provide equal access to lenders of all sizes and to fulfill the public mission. The creation of a "utility(s)" facility is needed to receive, package, sell and guarantee MBS. The authority(s) should operate with similar insurance and enforcement components as the FDIC. This option must minimize taxpayer exposure.

- **Sound and sensible underwriting standards must be established.** Establish standardized, sound underwriting principles and products that provide the foundation for responsible, credit worthy borrowers to be able to achieve homeownership goals. For additional safety, these standards must also be applied to securities (MBSs), purchased for portfolio (to a limited extent).

- **The authority(s) should hold capital for portfolio assets or guarantees based on risk that is balanced with the public mission.** In addition, the new authority(s) must set standards for the MBS they guarantee that establish transparency and verifiability for loans within the MBSs.

- **Ensure solid, verifiable, current loan level data is available to investors that empowers and enables them to conduct their own risk analysis.** There is a strong consensus among multiple market participants that solid loan level data is the essential foundation from which to rebuild the private mortgage security industry. Investors want to be empowered and enabled to conduct their own analysis. With properly structured loan level data the mortgage collateral supporting a regulated, securitized instrument will lead to a verifiable, current predictable instrument of cash flow and thus will attracting private capital.

- **The reformed authority(s) must have a separate legal identity from the federal government but serve a public purpose.** Unlike a federal agency, the authority(s) will have considerable political independence and be self-sustaining given the appropriate structure.

- **The new authority(s) should remain politically independent.** Political independence of the authority(s) is mandatory for successful operation. CEOs should have fixed terms so they cannot be fired without cause, and they should not be allowed to lobby. Additionally, the authority(s) should be self-funded instead of receiving ongoing appropriations.

- **There must be strong oversight of the authority(s).** The new authority(s) should be overseen by the Federal Housing Finance Agency (FHFA) or a successor agency that would make timely reports to allow for continual evaluation of the authority(s)' performance and adherence to the public mission.

- **Restore investor confidence and trust in the Representations and Warranties given by issuers of both the new authorities and private label securities.** Standardization and enforceability of Representations and Warranties is imperative. Pooling and Servicing Agreements (PSAs) must be simple with clear terms and definitions so they are easily understood by investors. They must have clear disclosures of any deviations from "Federal Best Practice Standards," clearly define "buy back" rules, and servicer operational policies must be consistent with their fiduciary duties to the investor.

- **The new system must allow for mortgages that are syndicated through explicitly government guaranteed mortgage-backed securities (MBS) to be assumable.** When interest rates rise, especially in high cost areas, the availability of an assumable low rate mortgage on a property may become the most affordable source of financing for a qualified assuming buyer.