The National Association of REALTORS

ABSTRACT

GSEs: Their Viability as Public Utilities

January 8, 2021

In the spring of 2019, NAR joined financial market experts Susan Wachter and Richard Cooperstein to propose transitioning Fannie Mae and Freddie Mac (Enterprises) into market utilities - *A Vision for Enduring Housing Finance Reform).* The Enterprises have worked well since the great recession and NAR's plan locks down this structure for the future in a way that improves access to mortgage while maintaining market stability.

In their latest white paper, *GSEs: Their Viability as Public Utilities*, the authors further clarify several points onto the discussion of a mortgage market utility.

Will investors come given utilities' lower returns, and under what conditions?
The answer is yes and here's why:

- Not all investors want high growth stocks. Many, like insurance companies and large retirement funds, want stable dividends that they can rely on to make their own payments such as life insurance policies. They will accept lower returns in exchange for stability. These investors have a long-view that provides the stable funding that will meet both the Enterprises' mission of stability and market support. It is in these investors' interest not to take risks for short-term gain, but to keep the ship steady through the cycle to earn steady, stable returns.
- To achieve stability, all risks in Fannie Mae and Freddie Mac and their business must be understood, transparent, and minimized. In addition, the government's support for the companies' role in the market and explicit government guarantee of the MBS they produce must be made clear. Finally, the regulator must be strong enough to see through and manage the tensions with the market, shareholders, consumers, and taxpayers.

Why a Utility?

- Fannie Mae and Freddie Mac are not typical companies. They have historically had shareholders and therefore must defend their profits. Shareholders take losses before taxpayers and are incentivized to run a good business.
- However, Fannie and Freddie are chartered by Congress to maintain liquidity at all times across the country and to support underserved markets. They get special treatment to perform this function.
- Thus, Fannie and Freddie have to satisfy two important groups: shareholders and taxpayers.
- Fannie and Freddie are central to the industry as they provide the infrastructure, maintain critical functions for the market to survive, and carry out a public service.
- The market they operate in is not naturally competitive and could lead to bad outcomes such as over pricing, restricted access, low quality products for investors, and risky behavior.
- Since the Great Recession, Fannie Mae and Freddie Mac have been reformed to be safer and operate more like utilities. They could not have helped the country out of the recession or during the pandemic if they were not structured this way.
- Without them, rates would be higher in normal times, access would decline, and the 30-year fixed rate mortgage would not be widely available.
- Locking them down in their current state as market utilities presents the least risk of all options. The Treasury, FSOC, and FHFA will make changes after which Congress amends a few laws, no big changes!

As market utilities, Fannie and Freddie strike a balance between utilizing private capital to protect tax payers, incorporating market incentives and innovation, and fulfilling their charter mission to the market and consumers.

500 New Jersey Ave, NW
Washington, DC 20001-2020
(800) 874-6500
www.nar.realtor

NATIONAL ASSOCIATION OF REALTORS®