The Daily Dish

GSE Reform and the Senate

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Eakinomics: GSE Reform and the Senate

Today the Senate Banking Committee concludes two days of hearings on housing finance reform. In opening the hearings, Chairman Mike Crapo noted, "It has now been a full decade since the government asserted control of the government-sponsored enterprises, or GSEs, Fannie Mae and Freddie Mac. After ten years of market recovery, these mortgage giants remain stuck in conservatorship, with taxpayers still on the hook in the event of a housing market downturn. It appears that the old, failed status quo is slowly beginning to take hold again, with the government in some ways expanding its reach even further, entering new markets where it has never been before. Today, Fannie and Freddie, along with government-insured mortgages, dominate the mortgage market. Approximately 70 percent of all mortgages originated in this country are in some way touched by the federal government. I have long said that the status quo is not a viable option, and I consider it a top priority this Congress to find a comprehensive, legislative solution."

Amen.

Throughout the years of the Obama presidency, the administration was content to conduct housing policy through the powers of the director of the Federal Housing Finance Agency (FHFA), especially regarding such matters as helping borrowers under water in their mortgages and setting standards for new lending. This history might tempt some to believe that the Trump Administration would take the same approach, especially with Mark Calabria as the apparent successor as director of FHFA. This view is short-sighted.

There are many flaws in the GSE model that can only be changed via legislation:

- The special treatment in the charter, including the GSE's tax-exempt status, pre-crisis line of credit with Treasury, securities available for purchase by the Fed, and others;

- Appropriately setting guarantee fees for the future;
- The ability to decrease loan limits (once out of conservatorship loan limits can only be increased);
- Right-size the affordable-housing mandates (the affordable-housing goals, funding the off-budget trust funds, and the duty to serve become mandatory out of conservatorship);
- Restricting lobbying activities;
- Preferred treatment of agency securities under bank capital standards; and
- Setting sufficient capital standards for *de facto* global systemically important financial institutions.

In short, there is a tremendous need to settle the rules of the road for housing finance in the United States, map out a competitive future for the GSEs, and protect the taxpayer from a recurrence of the financial crisis. Hopefully today is the start of that process.