The Daily Dish

GSE Reform Goes Live

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Eakinomics: GSE Reform Goes Live

It is widely reported that the Department of Treasury and the Department of Housing and Urban Development have submitted to the White House National Economic Council (NEC) their proposals for reforming Fannie Mae and Freddie Mac (the housing government-sponsored enterprises, or GSEs). The NEC will next issue its recommendations, which will fall to the Federal Housing Finance Administration (FHFA) to implement. Since there is a hearing on GSE reform scheduled for next week in the Senate, it is widely expected that the NEC report will be issued soon. I'm betting on today.

But what will it say?

Before we get to that, in a perfect world what would the report look like? Actually, in a perfect world there would be no such report because Congress would have legislated to burn the whole misbegotten mess down. There would be no Fannie Mae and Freddie Mac that have congressional charters exempting securities from registration with the Securities and Exchange Commission, allow unlimited holdings of their debt by banks, provide presidential appointments to their boards of directors, and allow lines of credit at the U.S. Treasury and other benefits that secure duopoly profits built on special privilege and a taxpayer backstop. Instead, there would be a 21st century re-thinking of housing finance, with clear roles for the Federal Housing Administration and whatever entities, public or private, that succeeded the GSEs, and an explicit fee to cover any catastrophic backstop provided by the taxpayers. To paraphrase *Gladiator*, "There was once a dream that was GSE legislation. You could only whisper it. Anything more than a whisper and it would vanish."

So, over a decade removed from the crisis, we are down to administrative reform, which severely limits what can be done. Still, one can expect the plan to permit the GSEs to retain some of their earnings instead of having a 100 percent profit sweep by the Treasury. This change will be paired with a plan to raise additional private capital. In exchange, the plan will stipulate the lines of business in which the GSEs will be permitted and, even more important, those where it will have a reduced footprint (multifamily housing) and those where it will do no business whatsoever (portfolio investing in mortgage-backed securities). All of this will be laid out on a timeline for exiting conservatorship.

Not bad, but there will likely be some key details missing on what the enhanced prudential standards and supervision for the GSEs will look like. That is, will they finally be treated like their comparably sized private-sector counterparts? It will also likely be quiet on the boundaries of mortgage pricing and availability for riskier borrowers; these issues will get punted to the FHFA.

So, today (maybe) we get the plan. This year we get a renegotiation of the Treasury profit sweep and the issuance of an FHFA capital rule. But most likely this plan will be a mere indicator of general direction — not a fully fleshed-out vision for housing finance reform.