



The Daily Dish

Update on GSE Reform

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Eakinomics: Update on GSE Reform

Over a decade into Fannie Mae and Freddie Mac being in conservatorship, the logjam on reform of the two housing government-sponsored enterprises (GSEs) is finally breaking. Spoiler alert—Congress is not passing legislation to strip the GSEs of their special privileges, generate competition through new charters, regulate the GSEs as utilities, consolidate the GSEs into the Department of Housing and Urban Development (HUD), or anything on the wide range of potential reforms. In fact, Congress is doing nothing at all.

Into this vacuum has stepped the Trump Administration, which laid out its vision for reform in reports from [Treasury](#) and [HUD](#). AAF's Thomas Wade [summarizes](#) the activity that has taken place this year, but two main areas stand out. The primary objective of the Federal Housing Finance Agency (FHFA) under Director Mark Calabria appears to be allowing the GSEs to recapitalize and setting the standards for their capital holdings when they exit from conservatorship. Unfortunately, details remain scarce on the actual process and level of recapitalization. The Treasury has amended its agreement with the GSEs and eliminated the full sweep of all profits. This amendment will allow the GSEs to rebuild capital somewhat. But as Wade notes, “an additional \$45 billion will not stave off disaster,” and there are “concerns that the GSEs will be released with capital at [only the minimum statutory requirements rather than levels based on any form of risk-based capital assessment](#).” Perhaps more information will be forthcoming when the FHFA releases its proposed GSE capital rule.

In addition to holding more capital, the GSEs can be made safer by limiting their risky activities. Wade notes that such behavioral reform has been an important part of the administration's agenda this year. Notably, the GSEs can no longer purchase mortgages with excessive debt-to-income ratios, have caps on multifamily lending, and are limited in how much they can expand into new lines of business. Nevertheless, more can and must be done to shield taxpayers from risk.

Director Calabria speaks at AAF [today](#). Perhaps the path forward for GSE reform will be clearer after his remarks.