

MCUL & Affiliates Governmental Affairs Government Sponsored Enterprise (GSE) Reform

2014

Federal Issue Brief



Background

Congress established the secondary mortgage market in order to increase liquidity in the residential mortgage finance market and promote access to mortgage credit at a time when middle class Americans could not obtain affordable mortgages to purchase a home.

Fannie Mae was chartered in 1938 and privatized by legislation enacted in 1968, becoming fully private in 1970. While Freddie Mac was chartered by Congress in 1970 to purchase single-family and multifamily residential mortgages and mortgage-related securities, which it would finance primarily by issuing mortgage pass-through securities and debt instruments in the capital markets. As a result, Freddie Mac indirectly decreased housing costs and provided better access to home financing.

Since the financial meltdown on Wall Street began, mortgage related GSE's have been placed under increased scrutiny by both Congress and regulatory agencies. While Fannie and Freddie play significant roles in the secondary mortgage markets, significant GSE reform by Congress was not included in the Wall Street and Consumer Protection Act of 2010.

Effect

- Reform of the GSE's could have positive and negative consequences on credit unions.
- Due to the fact that many credit unions and their members have benefited from the financing available through the GSEs, any reforms of the GSE system needs to ensure that the secondary mortgage market remain strong and healthy.
- It is important that credit unions maintain existing access to automated underwriting systems developed by Freddie Mac and Fannie Mae, as well as arrangements in which lenders enter into commitments with the GSEs for the purchase of a fixed amount of mortgage loans at a particular rate before the specific loans are identified or closed.

Status/MCUL Position

H.R. 2767 (PATH Act): Rep. Garrett Scott (R-NJ) introduced H.R. 2767, the "Protecting American Taxpayers and Homeowners (PATH) Act". In its current form, this legislation would not ensure the survival of a "government backed" 30 year fixed mortgage, which is critical to maintaining a vibrant secondary market. It would wind down Fannie and Freddie in 5 years, although does not provide for an extension in the event of unforeseen market disruptions. It would also provide for the full privatization of the secondary mortgage market, form a "utility" for small originators to use when accessing the secondary market; and provide significant relief from Dodd-Frank mortgage rules. The legislation was marked up and passed committee in 2013 on a party-line vote.

S. 1217 (Corker-Warner): Sen. Bob Corker (R-TN) and Sen. Mark Warner (D-VA) introduced S. 1217, the "Housing Finance Reform and Taxpayer Protection Act of 2013". The newly released plan by Chair Johnson and Sen. Crapo appears to align with credit unions' key goals in GSE reform, although it does require certain adjustments. These include: 1) ensuring that guarantors cannot also be aggregators or originators, to preserve competitive capability for the small lender mutual; 2) capital requirements for securitization and approved credit enhancement structures should be fully adequate, and should be exhausted before any FMIC guarantee is accessed, and only approved guarantors should provide credit support in front of the guarantee; 3) FMIC should rely on the safety and soundness examinations of prudential regulators for aggregators, originators, and servicers under \$500 billion (indexed); 4) the small lender mutual board should have balanced representation from different types of financial institutions and entities; 5) language employing the "qualified mortgage" as an implied standard should be adjusted to focus on meeting the ATR standards for prudent mortgage originations; 6) multiple lender issues regarding when senior lienholders should be notified of junior liens should be resolved; and 7) small institutions under \$500 billion that are approved to sell to Fannie and Freddie should be afforded a streamlined approval process to participate in the mutual, as a part of the transition.

The MCUL strongly supports GSE reform that will protect the 30-year fixed mortgage product, and that will guarantee access to the secondary market for community institutions and credit unions.

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