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CHLA's View: Ending the Conservatorships in a Manner that Protects Consumers & Community Lenders

November 14, 2024

MAJOR CHLA OBJECTIVES FOR GSE REFORM

- ***Preserve 30-year affordable mortgage, with broad consumer access to mortgage credit***. The current Treasury backstops of the GSEs should remain in place to assure investors and keep mortgage rates affordable for all qualified borrowers; the GSEs should pay an appropriate insurance fee for these backstops.
- ***Full & Competitive Small Lender Access to Cash Window & Securitization Execution***. To avoid market concentration by Wall Street banks, and facilitate broad lender access to the secondary market, the existing G-Fee Parity structure should be formalized prior to the ending of the conservatorships. And a robust cash window with competitive pricing must be widely available for smaller lenders, with no artificial constraints.
- ***Protection of Taxpayers***. Essential elements include: (a) private GSE capital to absorb losses, (b) risk-sharing, (c) strong FHFA regulation, & (d) strong underwriting standards.
- ***Establish an ROE Collar to Buttress the Utility Model.*** Treasury and FHFA should allow a reasonable ROE to support the market and provide shareholders a steady dividend; however, Treasury and FHFA must set up an appropriate ROE collar that removes any incentive for GSE managements to chase market share or excessive profits.
- ***Minimize Transition Risk.*** Reform should have a smooth transition and be based on a practical workable plan, to avoid disruptions to the housing market and broader economy.
- ***No GSE charters for Wall Street banks.*** The reformed GSEs are sufficient to serve the market and protect consumers and small lenders from Wall Street banks' abusive market power.

SIGNIFICANT REFORMS HAVE ALREADY TAKEN PLACE SINCE 2008

There is a consensus not to go back to the pre-2008 model of GSE being growth-stock companies that enjoyed a "private gain, public loss" rubric. But claims that recapitalization of Fannie and Freddie means going back to the old model are largely a straw-man argument. While private capital is still needed to complete the process, significant reforms (with bi-partisan support) have already taken place and are irreversible:

1. **Ability to Repay (QM).** A major factor in the GSEs' conservatorship was their purchase of no doc (Alt A) loans. With adoption of QM, no doc loans are a thing of the past.
2. **Credit Risk Sharing.** The GSEs have been doing risk sharing on over 90% of new loans for many years.

3. **Portfolio Wind Downs.** The significant interest rate risk that the GSEs were exposed to before 2008 has largely been eliminated with a major reduction of their portfolios.
4. **Strong Regulator.** The 2008 HERA legislation replaced a weak regulator (OFHEO) with a strong regulator (FHFA) that has focused on effective, proactive regulation.
5. **Taxpayer Compensation for Federal Guarantee.** As noted above, the pre-2008 deal in which GSEs had an implicit guarantee without any compensating fees should be replaced with Fannie Mae and Freddie Mac paying an appropriate fee for their Treasury backstops.
6. **Common Securitization Platform (CSP)/Common Security.** FHFA created a CSP and single security - to create a more uniform, competitive securitization process.