Housing Finance Reform

Why housing finance reform?

Our country's housing finance system is currently operated and regulated within a piecemeal framework, including the ongoing conservatorship of the government-sponsored housing enterprises (GSEs), Fannie Mae and Freddie Mac, developed in the wake of the housing collapse and financial crisis. Failure to act on reform and the uncertainties of the current regulatory scheme have severely restricted access to credit, shutting out many households that are prepared to become successful homeowners and continuing to depress home prices.

Further, because there have not been significant changes to the GSEs' structure and regulation, the federal government would again be liable for GSE losses in the event of another housing crisis.

Habitat's position

Habitat supports Congress' efforts to reform the U.S. housing finance system to ensure the future liquidity, stability and resiliency of housing markets. Responsible reform should provide an explicit, limited federal role in ensuring broad access to affordable, sustainable mortgage credit for homeownership-ready borrowers through the secondary mortgage market. It should also incorporate targeted tools, such as the National Housing Trust Fund and Capital Magnet Fund, that enable Habitat and other nonprofits to provide lower-income households access to quality housing.

The Federal response to the housing crisis

Although the GSEs suffered enormous losses in 2007 and 2008, when the value of mortgage-backed securities collapsed as borrowers defaulted and home prices dropped precipitously, it was private investment banks, not the GSEs, that securitized the vast majority of subprime loans that ended up in default or foreclosure.

In 2011, the Financial Crisis Inquiry Commission reported that in 2008, GSE loans had a delinquency rate of 6.2 percent, in stark contrast to the 28.3 percent rate for private-label loans.(See http://fcic.law.stanford.edu) Further, the Commission found that GSE securities "essentially maintained their value throughout the crisis and did not contribute to the significant financial firm losses that were central to the financial crisis."

In September 2008, the federal government placed the GSEs, neither of which have an explicit guarantee from the federal government, into the conservatorship of the Federal Housing Finance Agency (FHFA). With nearly $190 billion from the U.S Treasury, the GSEs were able to continue to provide liquidity and stability to fragile housing markets. The companies have now paid over $240 billion in dividends to the Treasury.

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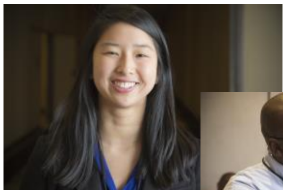

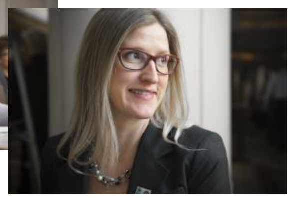

The role of the secondary mortgage market

Most people who buy homes in the U.S. do so using a mortgage provided by a private lender. These transactions constitute the primary mortgage market in the U.S., but for more than 50 years, many of these transactions have been enabled by a secondary mortgage market that provides liquidity to lenders and stability to the housing finance system.

In the secondary mortgage market, loans of the same rate and term are pooled and packaged into mortgage-backed securities that are then sold to investors, including the GSEs, which currently purchase a majority of U.S. mortgages. Lenders use the proceeds of the sales of their loans to extend credit to additional borrowers.

The secondary mortgage market has both significantly increased lenders' liquidity, enabling them to extend credit to many more borrowers than would otherwise be possible, and ensured that credit is equally available virtually anywhere in the country.

The solution

Habitat for Humanity is a member of a broad coalition of housing stakeholders convened by the National Housing Conference to advocate for housing finance reform. Habitat supports the following principles adopted by the coalition:

1. Establish a government guarantee of mortgage-backed securities to attract private capital;
2. Protect taxpayers with layers of capital and a carefully structured federal role;
3. Ensure affordable mortgage credit to serve housing needs of all homeowners and renters;
4. Allow equal access for many lenders by maintaining multiple capital channels;
5. Build on proven success in multifamily mortgage finance;
6. Maintain strong regulation and consumer protection;
7. Supplement the housing finance system with targeted housing assistance mechanisms; and
8. Keep what works from the Fannie Mae and Freddie Mac platforms.

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