



GSE Reform Update

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Aug. 2, 2017

The Senate Committee on Banking, Housing and Urban Affairs is beginning to look very seriously at reform of Fannie Mae and Freddie Mac again. Any major reforms in this area will impact the housing market and, as a result, the title industry. In the past three months, the Senate has held three hearings on the subject, and a bipartisan group of Senators continues to discuss possible reforms. House Financial Services Committee chairman Jeb Hensarling (R-TX) also has long championed GSE reform.

The background on this issue: in September 2008, the federal government put Fannie Mae and Freddie Mac into a conservatorship. Together, the two government sponsored enterprises (GSEs) control nearly \$5 trillion in the mortgage market. In fact, the federal government backs 70 percent of mortgages. Fannie Mae and Freddie Mac are again profitable, and they have returned approximately \$265 billion to the U.S. Treasury in the past eight years. All the earnings of both companies are absorbed by the federal government and, as a result, the capital level of the two GSEs is seriously depleted. Ironically, Fannie Mae and Freddie Mac have less capital today than when they were placed in conservatorship. Without a change in policy, their capital could potentially be depleted by the end of the year. If this happens, one or both companies could require a draw from the Treasury. In a worst-case scenario, this could trigger a market disruption that spikes interest rates and cools home purchases and refinancing.

The two GSEs are managed by the Federal Housing Finance Agency (FHFA). On May 11, 2017, FHFA director Mel Watt testified before the Senate Committee on Banking, Housing and Urban Affairs and laid out the potential key issues Congress will have to decide on in shaping the future role of Fannie and Freddie. He stated that “among the important decisions Congress, not FHFA, will need to make as part of housing finance reform are the following: How much backing, if any, should the federal government provide and in what form? What process should be followed to transition to the new housing finance system and avoid disruption to the housing finance market, and who should lead or implement that process? What roles, if any, should the Enterprises play in the reformed housing finance system and what statutory changes to their organizational structures, purposes, ownership and operations will be needed to ensure that they play their assigned roles effectively?”

Some believe that the government needs to reduce its role, claiming that there is too much risk to the taxpayers when the government backs so much of the housing market. Others, however, fear a GSE policy outcome where a small number of mega-firms mimic the size and scale of Fannie and Freddie under the guise of creating a private sector solution. Community lenders in particular fear the latter, as it could hurt their ability to have fair access to a secondary market.

TLTA will be carefully monitoring the new housing reform efforts. In the past, important aspects of reform to our industry have been preserving uniformity in underwriting standards. These standards include uniform mortgage documentation and minimum underwriting standards, including underwriting requiring insurance by a licensed title company. We will keep you up to date on any changes to these standards if they occur.