



# Weekly Update

Public Policy Network  
FHLBank Pittsburgh

## **Policy Update February 8, 2010**

The February 1 release of the Federal budget for FY 2011 was supposed to unveil the Administration's thinking about GSE reform. Well, the budget was released with just a promise for a plan in the near future. When the plan is released, it is expected to be a broad overview.

House Financial Services Committee Chairman Barney Frank (D-MA) revealed his plan to get to work on GSE reform with a series of hearings that will begin the first week of March. The first hearing will feature the Secretaries of HUD and Treasury who will no doubt be prepared to talk about GSE reform at that time.

On the Senate side, staff are working long hours to get a financial reform bill ready next week. Whether any Republicans will support the bill at that time remains unclear, but the bill will have been modified in a number of important respects from the earlier draft of Chairman Chris Dodd (D-CT) that met with such strident criticism last year. The committee will likely vote on the bill the last week of February.

### **Financial Services Committee to Consider the Future of Housing Finance**

Financial Services Committee Chairman Frank announced a hearing on March 2 to begin the process of considering the future of housing finance. The hearing will focus on all the private and public entities that support the mortgage market – the Federal Housing Administration, Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, and private lenders and securitizers. Frank stated it is the first step in a legislative process to determine the future of housing finance and the federal government's role in "responsible" homeownership and the supply of affordable rental housing.

### **The President's FY 2011 Budget Message and GSEs**

The White House released its comprehensive Federal Budget for FY 2011 with significant discussion of the current state of Fannie Mae and Freddie Mac. The references to FHLBanks are limited.

With regard to current challenges facing the System, the Budget states, "Recent financial market conditions have led to strong net interest income for the FHLBs, but several banks have experienced significant losses on their investments in private-label mortgage backed securities. These securities constitute less than 5 percent of their total portfolio."

The Budget references the System's mission as, "broadly defined as promoting housing finance, and the System also has specific requirements to support affordable housing. Its principal business remains lending (secured by mortgages) to regulated depository institutions and insurance companies engaged in residential mortgage finance."

One of the key battles this year will be the budget treatment of Fannie Mae and Freddie Mac, which, depending on how the reform is handled, could add trillions to the federal budget. OMB and CBO continue to differ on this point with the CBO maintaining the two be put on budget and OMB stating that they should not. Interestingly, the director of OMB, Peter Orszag, when head of CBO, argued that Fannie and Freddie should be on budget and criticized the Bush Administration for keeping them off budget. Now, as head of OMB, he states that Fannie and Freddie should be off-budget. With more than \$6 trillion at stake (\$1.6 trillion in corporate debt and \$4.7 trillion in mortgage-backed securities), OMB said it will continue to monitor this question.

### **NAHB Approves Resolution for Fannie Mae and Freddie Mac and the Future of Housing Finance System**

The National Association of Home Builders (NAHB) approved a resolution for the future of Fannie Mae and Freddie Mac. FHLBanks were not included in the resolution but will be addressed this spring in another resolution. According to NAHB, the secondary market should consist of a number of entities, all which would benefit from federal support. The entities would package mortgages into securities, and the government would create a fund to guarantee timely payment of principal and interest on these securities. All entities benefiting from the guarantee would pay a fee into the fund, but the government would still provide backup support in the event of "catastrophic risk."

The entities would focus solely on securitizing mortgages, have a different regulator than the primary mortgage market, and their activities "should be directed at a broad range of housing needs, to enable all Americans at all income levels to achieve decent, safe and affordable housing." The entities would hold loans; encourage sound and flexible underwriting; and would be required to meet minimum and risk-based capital thresholds.

### **NAR Releases GSE Reform Plan**

The National Association of Realtors (NAR) offered its thinking for restructuring the GSEs (Fannie Mae and Freddie Mac). According to NAR, the two enterprises should become government-chartered, nonprofit entities for the secondary mortgage market and would use Fannie Mae and Freddie Mac's existing infrastructure (independent management, board of directors, and FHFA regulation). The government would explicitly guarantee their mortgage businesses and would require mortgage insurance on loan products with loan to value of 80 percent or higher.

The mission of these nonprofits would focus on housing affordability for underserved segments and establish standards for their mortgage-backed securities and loans. The

entities would reinvest all excess revenue and also look for ways to increase the use of covered bonds. The NAR wants two entities so there would be competition.