

# Administrative Reforms To Fannie Mae and Freddie Mac: Priorities For Preserving Access and Affordability

Dear Acting Director Otting:

As the Federal Housing Finance Agency (FHFA) begins its next chapter under new leadership, our organizations seek to emphasize the vital role that Fannie Mae and Freddie Mac, the Government-Sponsored Enterprises (GSEs), currently play in the mortgage market. There is a unique opportunity today to maintain and build on important progress that has already been achieved in reforming the operations of the GSEs since the financial crisis.

We recognize that the GSEs' long-term ability to support the housing market, without exposing taxpayers to excessive risk, depends on the outcome of efforts to permanently address the structural problems that existed prior to the financial crisis. We believe that comprehensive legislative reform, including an end of conservatorship, is ultimately necessary in order to codify structural changes that ensure safety and soundness and provide the certainty needed for private capital to establish a more reliable presence in housing finance.

Some policymakers may recommend a variety of administrative policy reforms to the GSEs, including some with the potential to impact the size of the role the GSEs play in the housing market, before Congress has completed the difficult work of establishing a long-term resolution of the current conservatorship. Any efforts to meaningfully change the GSEs' market presence must be undertaken carefully, with vigilant monitoring and frequent recalibration (if necessary) to avoid disruptions to the flow of mortgage credit into the single-family and multifamily real estate markets. Efforts to reduce the GSEs' footprint should not move forward unless there is compelling evidence that the private market is able to assume an expanded role. Furthermore, administrative reforms should not impede the GSEs' ability to grow particular business segments in response to an unmet need or a crisis.

Any changes to the GSE footprint should be based on the most robust, data-driven analysis possible of potential impacts. This analysis should be multidimensional, assessing the extent to which such changes would impact mortgage pricing/costs and access to affordable housing, especially for middle-income and underserved borrowers/markets. This analysis should also consider impacts on the broader economy.

Ultimately, we believe any reform, be it administrative or legislative, must seek to further two key objectives: 1) preserving what works in the current system, while 2) maintaining stability by avoiding unintended adverse consequences for borrowers, lenders, investors, or taxpayers.

## **PRESERVING WHAT WORKS**

The GSEs remain the underpinnings of a multi-trillion-dollar financial market for single-family and multifamily mortgages. Reform should focus on preserving what works and addressing the risks that still exist. Key reforms put in place during conservatorship have better positioned the GSEs to continue to facilitate mortgage market liquidity, though none of these reforms are etched in stone.

Through rulemaking and other administrative actions, FHFA should establish policies that ensure a continuation or expansion of:

- A liquid national market with broad and fairly-priced access to affordable credit and improved infrastructure for the single-family secondary market;
- Support for strong and sustained liquidity in the multifamily rental market;
- Equal secondary market access and pricing for all lenders, regardless of size or volume; and
- The sustainable transfer of appropriate credit risk to the private sector.

## **MAINTAINING STABILITY**

Recognizing the vital role that the GSEs currently play, it is critical that any administrative reforms do not disturb essential functions in the secondary mortgage market. Policymakers must take great care that actions to institute reforms to the GSEs are prudently developed and implemented over a sensible time horizon.

Reforms should reflect a pragmatic understanding of the market and the mechanisms by which credit is delivered. These reforms should also be accompanied by necessary transparency that seeks critical feedback from industry and real estate professionals, consumers, and other market participants to ensure a thoughtful and careful review of the effect of potential changes. Extensive consultation with a broad group of stakeholders has served the administration well in its prior regulatory reform efforts.

Since external factors such as housing supply, macroeconomic conditions, and monetary policy can also have a significant impact on the mortgage market, any policy decisions should be re-evaluated on a regular basis.

Any administrative reforms to the GSEs have the potential to bring about significant changes in consumer access to credit. Therefore, they must contain safeguards against higher costs, reduced access, or other disruptions in both the single-family and multifamily markets. They must also include enforceable mechanisms to ensure the GSEs serve the entire market of potential renters and qualified homebuyers, including underserved consumers and communities, as well as manufactured housing. Federally-chartered institutions across a spectrum of industries and market sectors typically carry an obligation for related public service. The GSEs should not be any different in this regard.

Finally, reforms must include the ability of the GSEs to play a countercyclical role during times of market turmoil.

## **KEY PRINCIPLES**

Any potential administrative reforms to the GSEs that would meaningfully alter their market presence — single-family, multifamily, or both — should seek to maintain and enhance the stability and liquidity of the housing finance system, considering the following principles based on the potential impact on borrowers, taxpayers, and market structure dynamics:

### **Borrower Impact**

- Continue broad availability of long-term financing such as the 30-year, fixed-rate mortgage in the single-family market, including underserved markets and manufactured housing.
- Continue broad availability of long-term financing in the multifamily market, with a focus on the affordable and workforce multifamily market.
- Maintain affordability of credit through all parts of the credit cycle, including stress events.
- Mitigate any adverse impacts on the marketplace and consumers, with a particular focus on a smooth transition. Any changes to the GSE footprint (or broader businesses) should be transparent and implemented steadily over a reasonable time horizon.
- Provide meaningful opportunities for households across the housing continuum. Households should have reliable access to both homeownership and rental housing. The GSEs should not pull out of serving a portion of the continuum absent a reasonable degree of confidence that those borrowers will be well served through other market channels.
- Maintain the GSEs' obligations to meet the needs of underserved areas; meet reasonable, data-based housing goals; and support affordable housing and community development through the Housing Trust Fund and the Capital Magnet Fund.
- Address what will happen to “displaced loans.” Policymakers should assess and consider the impact of the extent to which loans “cut” from the GSE footprint might shift to FHA/VA/RHS, bank and institutional balance sheets, private label securities — or not be made at all. If those loans will flow through to other financing channels, policymakers should understand the impact on consumer costs and access to credit.

### **Taxpayer Protection**

- Ensure adequate capital and liquidity standards for the GSEs, commensurate with their roles, risk profiles, and public mission.
- Encourage responsible lending practices throughout the market in order to promote sustainable housing.

### **Market Structure**

- Recognize that private capital remains a minor participant in the housing sector and market reforms already identified by Treasury and others are needed as a predicate to changes to the GSE footprint to ensure that private capital sources have adequate capacity, stability, and appetite to help meet market demand. Further, reforms should rely on diverse sources of private capital, both in the secondary market and on institutional balance sheets, to replace the capital for any market share withdrawn from the GSE footprint.
- Maintain a countercyclical presence in the market to provide liquidity throughout the credit cycle. Reforms should not impede the GSEs' ability to expand their footprint when market conditions merit doing so.

- Foster a level playing field among market participants with respect to secondary market access through the GSEs. Such an environment would diversify GSE counterparty risks and provide consumers with greater choice and lower costs.
- Provide lenders of all sizes and business models reasonable and dependable access to the secondary market for the loans they originate, including providing liquidity for new and seasoned loans eligible for Community Reinvestment Act (CRA) credit.

## CONCLUSION

A well-functioning housing finance system should provide consistent, affordable credit to borrowers across the nation and through all parts of the credit cycle without putting taxpayers at risk of a bailout. Lenders and other market participants should have confidence that they can access the secondary market on a level playing field with their competitors, through clear and transparent standards that do not discriminate based on charter type, asset size, or loan volume, while investors should feel confident that channeling long-term capital into the housing market is sustainable. We firmly believe our principles support these objectives.

We urge policymakers to take these principles into account to ensure that access and affordability are preserved under the current, and any future, housing finance regime.

Sincerely,

Asian Real Estate Association of America  
 Consumer Federation of America  
 Consumer Mortgage Coalition  
 Enterprise Community Partners, Inc.  
 Habitat for Humanity International  
 Leading Builders of America  
 Local Initiatives Support Corporation  
 Make Room, Inc.  
 Manufactured Housing Institute  
 Mercy Housing  
 Mortgage Bankers Association  
 Nareit  
 National Apartment Association  
 National Association of Affordable  
 Housing Lenders

National Association of Hispanic  
 Real Estate Professionals  
 National Association of Home Builders  
 National Association of Real Estate Brokers  
 National Association of REALTORS®  
 National Community Stabilization Trust  
 National Council of State Housing Agencies  
 National Housing Conference  
 National Housing Trust  
 National League of Cities  
 National Multifamily Housing Council  
 The Real Estate Roundtable  
 Real Estate Services Providers Council  
 Stewards of Affordable Housing for the Future  
 Up for Growth Action