

THE FINANCIAL SERVICES ROUNDTABLE



Financing America's Economy

To: Representatives of the Financial Services Roundtable, GAC, Public Affairs Council, Research Council, All Staff

Fast Facts: GSE Reform

Fannie Mae was established as a federal agency in 1938, and was chartered by Congress in 1968 as a private shareholder-owned company. Freddie Mac was chartered by Congress in 1970. Both had the statutory mission to provide liquidity, stability and affordability to the U.S. housing and mortgage markets.

FACT: In September 2008, Fannie Mae and Freddie Mac were placed in government conservatorship under the authority provided by the Housing and Economic Recovery Act of 2008.

- Fannie and Freddie became insolvent as a result of inadequate capital held against their leveraged portfolios that were exposed during the housing crisis.

FACT: Over the course of the financial crisis, the Treasury Department injected \$134 billion of taxpayer dollars into Fannie Mae and Freddie Mac to keep them solvent so they could honor their debt and guarantees.

FACT: In examining the role of Fannie Mae and Freddie Mac in the financial crisis, [Mark Zandi of Moody's Analytics](#) reached the following conclusion, "The missteps and failure of the GSEs did not cause the housing market and mortgage finance system to collapse, but they set off a chain of events resulting in the most severe financial crisis and economic downturn since the Great Depression."

FACT: On February 11, 2011, the Treasury released its [31-page proposal](#) about how to reform the GSEs, as mandated by the Dodd-Frank Act. In the report, the Administration recommends allowing the GSEs' maximum loan limits to decline to \$625,500 from \$729,750 on October 1, 2011 and gradually increasing minimum down payments to 10% on loans eligible for purchase by Fannie Mae and Freddie Mac.

- The Administration also presents three options for replacing the GSEs with a new secondary mortgage market structure. A brief description of the three proposed options is attached.

The Housing Policy Council of the Financial Services Roundtable has proposed an [alternative plan](#) to maintain consistent, affordable access to 30-year fixed rate mortgages, return private capital to the secondary mortgage market, minimize taxpayer exposure, and provide a catastrophic backstop to maintain liquidity in the mortgage market. For more information, please contact Paul Leonard of the Housing Policy Council at Paul@fsround.org.

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As always, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at Abby@fsround.org, or Scott Talbott, Senior Vice President of Government Affairs, at Scott@fsround.org.

Three possible courses for long-term reform

As presented by the Administration in their Feb. 11 report

Option 1: “Privatized system of housing finance with the government insurance role limited to FHA, USDA and Department of Veterans’ Affairs’ assistance for narrowly targeted groups of Borrowers”

Under this option, FHA, VA and USDA remain the federal government's actors in the mortgage market, but there will no longer be federal financial backstops available for investors in the event of losses.

Option 2: “Privatized system of housing finance with assistance from FHA, USDA and Department of Veterans’ Affairs for narrowly targeted groups of borrowers and a guarantee mechanism to scale up during times of crisis”

Under this option, FHA, VA and USDA will remain the federal government's actors in the mortgage market, but there will be an unspecified federal backstop that would "scale up" during times of economic crisis but otherwise not be an actor in a private lender-dominated mortgage marketplace.

Option 3: “Privatized system of housing finance with FHA, USDA and Department of Veterans’ Affairs assistance for low- and moderate-income borrowers and catastrophic reinsurance behind significant private capital”

Under this option, FHA, VA and USDA will remain the federal government's actors in the mortgage market, but there will be the creation of a government reinsurer that would insure against “catastrophic” losses for soundly underwritten mortgages. This entity will step in only if the private guarantors fail and the reinsurance fund is depleted.

The full report is available [here](#).

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