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House GOP Faces Challenges with Conservative GSE Bill

By: Victoria Finkle – July 8, 2013

Rep. Jeb Hensarling, R-Texas, is set to unveil new mortgage finance reform legislation this month - an effort that has virtually no chance of becoming law this year, but which will help shape the housing debate going forward.

The chairman of the House Financial Services Committee is likely to take a far more conservative approach than Sens. Bob Corker, R-Tenn., and Mark Warner, D-Va., who introduced a bipartisan bill last month.

Although details of the House legislation are still being worked out, it is likely to eliminate the government-sponsored enterprises and move towards a fully private system, including calling for key changes to the Federal Housing Administration. It may also include language to bolster other aspects of the mortgage finance system, such as the covered bonds market.

Hensarling and House Republicans have to move forward soon, observers said, before lawmakers begin coalescing around the Corker-Warner effort, which has already attracted significant bipartisan support.

"This is their housing finance platform," said Edward Mills, a financial policy analyst at FBR Capital Markets. "If Hensarling can't consolidate that support, it's going to be much harder for him to negotiate as the process moves forward."

So far, Hensarling has been working on lining up other right-leaning Republicans, including Reps. Scott Garrett, R-N.J., and Randy Neugebauer, R-Texas, who are helping to write the bill, representatives from their offices confirmed. A House banking panel spokesman declined to comment, except to say legislation "is being developed."

Whatever the House Republicans unveil, they must do so in the shadow of the Senate effort, which provides a critical benchmark in the debate over the GSEs and mortgage finance reform. The Senate bill offers a compromise that includes elements attractive to many on both sides of the political aisle, including keeping an explicit role for the government in the mortgage market while also eliminating Fannie Mae and Freddie Mac. It also received early praise from key industry players.

If Hensarling and his colleagues are going to steer the conversation in favor of a smaller or nonexistent government role in the market, their bill is likely their best chance to mark a position for future negotiations.

"Corker-Warner has undeniably received a first mover advantage that lessens the importance of any legislation that comes out of the House," said Isaac Boltansky, a policy analyst at Compass Point Research & Trading. "But what comes out of the House is important because it provides insight into what House Republicans will eventually agree to. I would look at the

legislation that comes out of the House as the outer bound for the GSE reform conversation that's going to occur in Congress over the next couple of years."

As a result, most observers predict the House bill will include few compromises and will likely advocate for a fully private mortgage finance system.

"For me the biggest question is, will Chairman Hensarling embrace a five-to-ten year bridge to his ideal mortgage market, or will it simply be an effort aimed at removing government support entirely?" said Boltansky. "That's going to be a big indicator as to how the debate actually shapes up, when it heats up in earnest in 2015."

But the Corker-Warner bill also gives House Republicans a starting point from which they can key off their efforts. And, conversely, it allows Corker to perhaps hold the line against additional changes Democrats might want.

"Hensarling's bill allows Corker and the Republicans in the Senate to say listen, there's no way we can reach a deal with the House if we do more," said Mark Calabria, director of financial regulation studies at the Cato Institute.

Still, even within his own committee and the GOP-dominated House, the Texas Republican is likely to face numerous hurdles, regardless of what the bill proposes.

"Negotiating with the Senate and the White House and other stakeholders, I think he's going to have difficulty if his bill is dramatically different than Corker-Warner, if there's little to no government role," said Brandon Barford, a vice president at ACG Analytics. "I also question whether he has enough votes to get it out of committee. He's not going to get any Democrats, and he has a very slim margin to lose Republicans."

Barford pointed to lawmakers from states like California, New York and Pennsylvania, where housing remains expensive and some members are close to National Association of Realtors, National Association of Home Builders and other industry groups that won't support a fully private system. Assuming no Democrats sign on, Hensarling can only afford to lose four members from his own party to get the bill through the committee.

But if Hensarling were to take a more moderate approach to appease some lawmakers and industry representatives, he'd likely have difficulty moving the bill on the House floor, Barford added.

"If it's a more moderate bill, though not necessarily as moderate as Corker-Warner, he might be able to get it out of committee but it would split the caucus, which casts doubt on it receiving floor consideration," said Barford. "Politically, he's really quite stuck."

Some said the Republicans on the committee are likely to fall in line behind the chairman's plan, but predicted that Hensarling's greater challenge will be convincing GOP lawmakers outside of the banking panel to stand with him because of their ties to the housing industry.

Hensarling is eager to fast track the bill through the chamber, several industry sources suggested. Lawmakers are expected to introduce the bill soon, and the Texas Republican is said to be pushing to have it marked up in committee before the August recess.

"He made it clear to the members who were on the committee and those who joined the committee that they needed to support him on GSE reform - he might have a couple of defections, but overall it's going to be a united committee," said Mills, calling a possible House floor vote "a much bigger question."

