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Realtors Hear Input on Role of GSEs in Housing Finance

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Realtors® attending the National Association of Realtors (NAR) mid-year legislative meetings and trade expo in Washington heard a panel of housing experts lay out the several solutions for housing finance reform.

The six panelists discussing **Fannie Mae & Freddie Mac: Obama Options and Beyond** were Steve Brown, 2011 NAR first vice-president nominee; James Parrot, senior advisor for housing at the National Economic Council; Susan Wachter, a professor at The Wharton School, University of Pennsylvania; Mark Calabria, director of Financial Regulation Studies at the Cato Institute; David Katkov, executive vice president and chief business officer at The PMI Group, and Ann Grochala, vice president at the Independent Community Bankers of America.

Scott Brown laid out the official NAR stance on reforming the housing finance system and the future of the two government sponsored enterprises (GSEs) Freddie Mac and Fannie Mae. NAR believes that reform is required and taxpayers must be protected from losses, he said. The federal government must continue to play a role in the secondary mortgage market to ensure a steady flow of mortgage liquidity in all markets under all economic conditions.

Brown said "As the leading advocate for home owners, NAR is concerned that **eliminating the GSEs without a viable replacement is not a reasonable option and will severely restrict mortgage capital and result in higher fees and costs for qualified borrowers**. Reform of the secondary mortgage market needs to be comprehensive and undertaken methodically."

James Parrot reviewed the Obama administration's recommendations which include varying levels of government backing. The Administration is looking at both the near-term and what steps should be taken to reduce taxpayer risk and make the housing market more stable but also to frame the discussion regarding the government's long-term role in housing finance.

"The government's large presence in the housing finance is unhealthy and needs to be scaled back; however, **the steps we take over next few years to reduce the government's role and increase private capital will have a tremendous impact on the housing market and economy** as well as the availability and affordability of mortgages," Parrot said. "The objective isn't to turn away from housing, but to make the housing finance market stronger so that families and their most important asset are better protected."

Mark Calabria restated the position of the Cato Institute which he has presented to at least one congressional committee: the government should have a very limited role in the secondary market. He told the NAR attendees that the private capital market has the funds and capacity to absorb Fannie Mae and Freddie Mac's market share and that increased government support in the past few decades have only slightly increased America's homeownership rate. **Homeownership rates in other countries, he said, are higher despite their government's limited involvement**. Calabria did acknowledge that some government backstop was essential in the future, since the housing and finance markets are sensitive to booms and busts.

David Katkov countered that it would be naïve to move to a purely private market simply because it's been successful in other countries, adding that **the U.S.'s housing finance system dwarfs that of other countries and is far more complex**. Ann Grochala also expressed concern that a purely private market would work against small lenders and community banks because of the heavy competition from the big banks.

Susan Wachter agreed that private capital needs to return to the housing finance market, but that most likely won't happen until the market has stabilized. "There **needs to be more accountability and transparency in the secondary mortgage market,**" she said, "so that private investors can best assess their risk and safely get back into the market."

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