National Mortgage News

Cato Institute: A Co-op Can Replace Fannie and Freddie

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By **Brian Collins**

WASHINGTON—As the debate continues over the future of Fannie Mae and Freddie Mac, at least one prominent conservative think tank director believes lenders can form a cooperative to issue mortgage-backed securities without a government guarantee or backstop.

“I don’t see any reason why lenders can’t just create a cooperative on their own,” said Mark Calabria, director of financial regulation studies at The Cato Institute. “I simply don’t think they need a guarantee,” the former Senate Banking Committee staffer told this newspaper.

Several banking trade groups have considered the cooperative structure as a way to eventually replace Fannie and Freddie, which have been in conservatorship since September 2008, with the latter still needing taxpayer support.

The Independent Community Bankers of America has embraced the idea of restructuring Fannie Mae and Freddie into a cooperative. This cooperative would inherit the GSEs’ infrastructure, allowing it to pool mortgages originated by its members and issue MBS.

As described by ICBA vice president Ann Grochala, the co-op would be capitalized by those same members. It could employ third-party guarantors—but would need a government backstop in the event of catastrophic losses.

“We think Fannie Mae and Freddie Mac should be restructured into a cooperative—similar to the Federal Home Loan Bank structure—which has worked well,” Grochala said during a recent panel discussion at a National Association of Realtors conference in Washington.

She noted that an FHLB governance structure would ensure equal secondary market access for small and large members and deter industry consolidation. In other words, community banks would not be forced to sell their mortgages to larger competitors and consolidators.

Calabria pointed out at the NAR event that a cooperative would address some of the risks that became evident under a Fannie/Freddie structure. “You do a better job of aligning risk in the system with a cooperative model than you can with a hybrid public/private model,” he said.

Introducing the panelists, NAR chief economist Lawrence Yun noted that Tea Party activists are very receptive to the ideas coming out of the Cato Institute.

NAR has spelled out its principals for GSE reform but has not endorsed a specific structure or plan as yet.

The Realtors’ principal call is for the government to provide guarantees on securitizations of safe and reliable mortgage products. However, Yun warned that adopting a cooperative structure like ICBA’s would push up the cost of credit. “Consumers will be paying 50 and 70 basis points higher mortgage rates. There is a tradeoff,” he said.