

## Housing finance agency confirmation hearing could involve dueling mortgage plans

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The Trump administration's still undisclosed plans to end the federal conservatorship of Fannie Mae and Freddie Mac will be a focus of upcoming confirmation hearings for the nominee of the federal agency overseeing the two government sponsored enterprises.

Democrats such as Senate Banking ranking member Sherrod Brown, D-Ohio, have said they're concerned about the suitability of Mark Calabria, the nominee to run the Federal Housing Finance Agency. The committee hasn't said when it will hold a hearing on Calabria's nomination.

"He comes out of the far right of the Republican Party," Brown said on Tuesday. "They want to privatize everything, and my concern is: what happens to the 30-year mortgage if they get their way?"

The Senate Banking hearing could show the likely direction of efforts to overhaul agencies that are huge players in the national mortgage market. Not only could Calabria reveal administration thinking, he would be doing so in front of Senate Banking Chairman Michael D. Crapo, who last week released his own outline.

Now chief economist for Vice President Mike Pence, Calabria once did research at the libertarian Cato Institute, where he said government-backed mortgages have done little to ensure the viability of 30-year fixed rate mortgages or boost homeownership rates that were no higher than they were before Fannie and Freddie grew to guarantee and securitize nearly half of all mortgages originated in the U.S.

"He's the only one that believes that, though," Brown said.

The government put Fannie and Freddie into conservatorship in 2008 in the wake of the housing market crash, spending \$190 billion in the rescue. The firms have since returned about \$292 billion to the Treasury in profit sweeps, but they remain on the hook for the original capital. Legislative proposals to end the conservatorship have come and gone in the past decade, but none has passed either chamber of Congress.

Crapo, R-Idaho, outlined a proposal to privatize the two Government Sponsored Enterprises, requiring them to pay back the government, perhaps at a discount, and then recapitalize the companies so they could operate on their own. His proposal differs from one he made in 2014 primarily in the privatization element. In his 2014 plan, proposed along with Democratic Sen. Tim Johnson, he would have wound them down.

The privatization provision makes the plan more palpable to Fannie and Freddie shareholders, but does little to satisfy other constituencies that opposed the 2014 bill.

Crucially, the Crapo proposal would preserve government backing for 30-year fixed rate mortgages, a feature that many say is essential to the housing industry. The proposal would convert Fannie and Freddie into private mortgage guarantors competing with other private firms. But the loans they back would be eligible for bundling into mortgage backed securities by Ginnie Mae, a government sponsored enterprise that would have an implicit government guarantee.

Crapo's outline would direct Ginnie Mae to also establish a mortgage insurance fund that the guarantors would pay insurance premiums into. As he did in 2014, Crapo is calling for a 10 basis point annual assessment on all mortgages in the scheme and funnel it to the Housing Trust Fund, the Capital Magnet Fund and a new Market Access Fund, which would replace Fannie and Freddie's existing affordable housing goals and duty-to-serve requirements.

The panel reported the 2014 bill to the full Senate favorably, but no floor vote followed. Jon Tester of Montana and Mark Warner of Virginia are the only two Democrats still on the committee of the six who backed the 2014 bill. Brown, Robert Menendez, D-N.J., and Elizabeth Warren, D-Mass., who are still on the committee, voted against the 2014 bill.

**Industry Support** As it did in 2014, the housing industry has cautiously supported Crapo.

The Mortgage Bankers Association released a statement calling the outline "a significant sign of his continued commitment to work toward finally ending the conservatorships of Fannie Mae and Freddie Mac and ensuring a stable and liquid market —with an explicit, paid-for government guarantee —for both single-family and multifamily mortgages." The National Association of Home Builders described it as an "important step to move the debate forward."

Credit unions applauded the effort, noting that the outline would prohibit guarantors from offering volume-based discounts on the fees they charge. The smaller institutions have called the industry practice of offering better terms for bigger loan packages unfair. The National Association of Federal Credit Unions and the Credit Union National Association were both more tepid in their support back in 2014.

Consumer and civil rights advocates are opposed.

The Center for Responsible Lending, the NAACP, the National Urban League and a half-dozen other organizations said, "it is disappointing to see a proposal that weakens the regulatory authority over the GSEs and returns the Federal Housing Finance Agency, Fannie and Freddie's regulator, to the same frail status the regulator was in leading to the housing crash of 2008 that hurt so many hardworking families and significantly contributed to the current lagging rates of Black and Latino homeownership in the country."

Crapo can also expect opposition on his right flank. The Heritage Foundation released a proposal last week rejecting any overhaul that would retain government guarantees and calling for the Trump administration to move without Congress to shrink the footprint of Fannie and Freddie. The proposal echoes Calabria from his time at Cato.

**Investor Constituency** Crapo's outline seems to have flipped Fannie and Freddie's shareholders to his side. His proposal in 2014, which would have wiped out equity holders, led shares to plunge by nearly a third. The outline he released last week led to a small decline in prices that have more than doubled since Treasury Secretary Steven Mnuchin and acting FHFA director Joseph Otting

started talking in recent weeks about moving the GSEs out of conservatorship without Congress. Otting is also the director of the Office of the Comptroller of the Currency.

"I'm concerned about the administration's involvement," said Brown. "We don't know what the Office of the Comptroller of the Currency is doing."

Brown said Democrats might dig in their heels further if the administration tries to spur Congress to act by threatening to go it alone.

"We hear there's a plan —an administration plan —and we want to see it before we got into this (Crapo's proposal), so we can go in with eyes wide open," Brown added.

Brown, along with House Financial Services Chairwoman Maxine Waters, D-Calif., asked Otting in a letter to provide more details on the administration's ideas for Fannie and Freddie. In response, Otting only provided a cursory description of the FHFA and its statutory duties.

Crapo told CQ that he wants to work with the administration.

"I believe that the administration, generally at the leadership level, would like to move ahead with Congress and work jointly, and that's what I think is the best outcome," Crapo said. "If Congress once again gets stuck, I could see the administration seeing if they could do some of the kinds of preparatory work for a congressional solution."

The administration may ultimately decide against moving forward with any plan that could rattle an already shaky housing market just before the 2020 elections. But Brown doesn't think that'll stop them.

"Do you read what the White House tweets out every day?" Brown, a potential presidential candidate, said. "It's closing the government down, it's a tax bill that screws the middle class, it's regulations that weaken protections for workers —So, why would housing be any different?"