

National Mortgage News

Ryan Shaping Party's GSE Plan?

Kevin Wack | August 20, 2012

WASHINGTON-The debate inside the Republican Party over the future of Fannie Mae and Freddie Mac has taken a right turn with Mitt Romney's selection of Rep. Paul Ryan as his running mate.

Romney, who will become the party's presidential nominee later this month, is not saying whether the U.S. housing market should continue to have a government backstop.

But Ryan, a Wisconsin congressman who chairs the House Budget Committee, has chosen sides in the intra-party dispute over that question, arguing that the mortgage market should be privatized.

"The housing finance system of the future will allow private-market secondary lenders to fairly, freely and transparently compete, with the knowledge that they will ultimately bear appropriate risk for the loans they guarantee," Ryan wrote in his 2013 budget plan.

That view puts Ryan at odds with numerous members of his own party, as well as with the powerful housing industry.

It also means that conservative Republicans who want to see the end of the government guarantee now have an ally in a key position.

Ryan's position on how to overhaul the U.S. housing finance system has received far less attention than his plans for cutting government spending. And because he is not a member of the House Financial Services Committee, he does not have as detailed a record on Fannie and Freddie as some of his colleagues do.

But Ryan is a co-sponsor of a bill sponsored by Rep. Jeb Hensarling, R-Texas, that would privatize the two housing giants over a five-year period. Ryan's own budget plan, which passed the House earlier this year, also envisions a gradual transition to a fully private market.

Any such proposal would undoubtedly face strong resistance from the housing industry.

David Stevens, president of the Mortgage Bankers Association, said the lack of a government guarantee would hurt the availability of the 30-year fixed-rate mortgage and cripple the ability of borrowers to lock in mortgage rates in advance of their purchases.

He also warned that a government role is necessary to ensure that the mortgage market continues to function during sharp economic downturns.

"We've seen this on multiple occasions," Stevens said, "where private capital refused to invest in the market because of uncertainty in the economy."

The housing industry has many allies on Capitol Hill, including some Republicans, particularly those who hail from states, such as California, where real estate is expensive.

But some of Ryan's conservative allies are likely to hold key positions in 2013 should Republicans retain control of the House. For example, Hensarling is a leading contender to become the next chairman of the Financial Services Committee.

The split within the GOP is a key reason why House Republicans have not sought to pass housing-finance legislation this year. The party is locked in a game of chicken with the Obama administration, with each side daring the other to put forward a detailed plan for overhauling the government-sponsored enterprises.

The Obama administration has called for a smaller government role in the mortgage market, but congressional Democrats are likely to balk at any plan that eliminates the government guarantee altogether.

The fact that Fannie and Freddie are turning the corner financially, while the broader U.S. economy remains fragile, make the politics of reforming Fannie and Freddie even harder.

"If we start to wind down the GSEs too quickly, that's going to kill off any chance of a housing recovery," said David Min, a UC-Irvine law professor who studies housing policy.

If Romney is elected president in November, his top priority next year will likely be to reach a long-term budget deal. But housing finance reform could also be part of his first-term agenda.

Ryan is a 14-year House veteran, and it is easy to envision him playing a key role in any negotiations with Capitol Hill over a housing finance reform bill.

Ryan's inclusion on the GOP ticket has cheered conservatives who want to see a fully privatized mortgage market.

"That's certainly a positive," said Mark Calabria, director of financial regulation studies at the Cato Institute, who is a longtime critic of Fannie and Freddie. "It certainly is not unreasonable to think that he would be involved in these issues."

But some observers believe that Congress will have to take the lead on reforming Fannie and Freddie. That would leave a Romney White House, and a Vice President Ryan, in a supporting role.

"You have a dilemma for Republicans, in that if you eliminate Fannie and Freddie, you're going to drive more business to the megabanks, which only makes the too-big-to-fail problem with the megabanks even worse," said Jaret Seiberg, an analyst with Guggenheim Partners' Washington Research Group.