

FINANCE

Geithner Banks Federal Role For Housing

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by Bill Swindell

Treasury Secretary Geithner testified today that the federal government would play a different, though still important, role in the nation's housing finance system as Congress begins to revamp Fannie Mae and Freddie Mac. But Republicans protested his failure to offer any details on how to unwind the two mortgage giants, which are under federal conservatorship.

Geithner told the House Financial Services Committee that the two government-sponsored enterprises could not continue their existing hybrid structure. The federal government took over the companies in 2008 and has committed to purchasing more than \$125 billion in preferred stock.

"Government has a key role to play in that new system, but its role, and the role of the GSEs in particular, will be fundamentally different from the role played in the past," he said. "Private gains can no longer be supported by the umbrella of public protection, capital standards must be higher and excessive risk-taking must be appropriately restrained."

Geithner spelled out the Obama administration's objectives, such as keeping mortgage credit widely available, making housing affordable, providing consumer protection and bringing financial stability.

But he also said any transition to the private market will have to be carefully calibrated because the two GSEs financed or guaranteed 70 percent of single-family mortgages in 2009, up from 40 percent in 2006.

"As we move forward, it is critical we facilitate a smooth transition to any new system. And I want to be clear: Treasury remains committed to supporting the continued activities of the GSEs in conservatorship," Geithner said.

Treasury has asked all stakeholders for their input by April 15.

Republicans said Geithner should have a clear plan by now, and they expressed anger that the administration decided to raise the cap on government aid to an unlimited amount while declining to put the Fannie and Freddie's debt on the government's balance sheet.

"It's unacceptable that more than 18 months after the GSEs were placed in conservatorship, that the Treasury Department still does not have a plan for Fannie and Freddie," said House Financial Services ranking member **Spencer Bachus**. "Without reform, the bailouts will not stop; the housing market will not find its footing, and the American economy will not recover."

House Republicans are preparing legislation that would wind down the two companies' operations

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over four years; reduce their portfolio holdings by 25 percent annually; and phase out conforming loan limits that can reach almost \$730,000 in some high-cost areas.

House Financial Services Chairman **Barney Frank** said that his panel would be working on two tracks: unwinding both Fannie and Freddie while overhauling the entire housing finance system, including Ginnie Mae and the Federal Home Loan Bank System.

Frank also signaled he would push to get more assistance for rental housing, a top legislative priority for him.

"It will not be government-mandated, but there will be some role for government agencies figuring out the interaction of all these," said Frank. "Who provides liquidity to the secondary mortgage market? Is there a role for subsidy?"

Frank added he believed government should not heavily subsidize home ownership but focus instead on subsidizing rental housing. "When you put people into decent rental housing, you do not confront the problems we have seen putting people inappropriately into homeownership," he said.

Lobbying groups have put forth their own widely varying ideas. For example, the Mortgage Bankers Association has proposed a new line of mortgage-backed securities that would contain a federal guarantee, supported by a fund with fees coming from assessments on the underlying packages. Mark Calabria of the Cato Institute called for breaking the two mortgage giants into at least a dozen pieces. The National Association of Realtors has proposed a government-chartered structure, such as the Export-Import Bank, that would be politically independent and free of congressional appropriations

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