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## US Hsg Experts Tell Congress: Retain Some Govt Backg in GSEs-2

By Yali N'Diaye

The MBA proposes that each security have two components: a security-level, federal government-guaranteed "wrap," which would in turn be backed by private, loan-level guarantees.

While the MBS would be guaranteed, the institutions issuing them would not be supported by the government.

Berman said a fully private model could not bring the depth of necessary capital to fund the housing finance system. Still, with the model proposed by the MBA, "It is anticipated the private market will expand and contract with investor risk appetites."

Center for American Progress Action Fund Executive Vice President Sarah Rosen Wartell agreed that, "History suggests that the private market alone will not achieve" objectives of the housing finance system.

While calling for a reduction of the government's role, she still urged the government to serve the "historical objectives of liquidity, stability, and affordability and concentrate a federal backstop on a smaller portion of the market that best serves public purposes."

Among the experts invited to testify, Cato Institute Director of Financial Regulation Studies Mark Calabria offered the most radical changes, saying, "Private, at risk, capital should serve as the foundation of our mortgage finance system."

However, in the eventuality the government decides to provide support, it should be in an explicit way, he said, adding that subsidies should be on budget.

The reform should in particular reduce the market reliance on Fannie Mae and Freddie Mac. One way to achieve that is to break them down into a dozen of entities.

And he also urged Congress to, "Get GSEs out of guarantee business."

That, however, is unthinkable for the National Multi-Housing Council, whose vice chairman Robert Dewitt noted, "A government-supported secondary market is absolutely critical to the multifamily sector and our industry's ability to continue to meet the nation's demand for affordable and workforce housing."

That said, he opposes a publicly funded government entity and "instead believe that private capital should be leveraged to support secondary market activities"

For Anthony Sanders, Professor of Real Estate Finance at George Mason University School of Management, Fannie Mae and Freddie Mac's role should be reduced by "1) removing their affordability housing mission, 2) unwinding the retained portfolios at an accelerated pace and 3) toughening the regulatory oversight of Fannie and Freddie by moving it to the Fed."

And one way to ease the funding in the housing market is to "pass legislation governing a covered bond market (similar to the market that exists in Denmark) and begin with the jumbo mortgage market."

"Covered bonds potentially provide an excellent vehicle to fund the residential and commercial mortgage markets going forward," he said, also stressing the need to repair the securitization market.

The National Association of Realtors agreed that developing the covered bond market would be a helpful tool in the new landscape.

"As the GSEs are restructured, NAR members feel that whatever model is selected should allow the organizations to pilot the use of covered bonds (e.g. to help improve liquidity for multifamily housing) in order to foster a better understanding of the tool, and then encourage its use in the nation's residential secondary mortgage market," said Vice President and Liaison to Government Affairs Vince Malta.

As for the future of Fannie Mae and Freddie Mac, the NAR supports a government-chartered structure, as it "establishes a separate legal identity from the federal government, while serving a public purpose."

That is in line with most experts who urge stronger private sector funding while keeping some government backup to ensure the depth of the market.

"It is extremely unlikely that enough pure private capital -- without government backing -- could be attracted to replace existing mortgage funding, or assume the GSEs market share, and make mortgage lending available in all types of markets," Malta said.

And, he added, "because of their existing capabilities and infrastructure, the current GSEs are best positioned to become government-chartered authorities."

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