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Banking Committee Begins Housing Finance Reform

Yesterday, the U.S. Senate Committee on Banking, Housing and Urban Affairs began its consideration of housing finance reform with a hearing entitled “Essential Elements of Housing Finance Reform.” Significantly, Chairman Tim Johnson (D-SD) indicated in his opening statement that the Committee will be holding a series of hearings on housing finance reform this Fall and hoped that it would be able to reach agreement on a bill by the end of the year. Ranking Member Mike Crapo (R-ID) echoed Chairman Johnson’s remarks, stating that he hoped that the Committee could mark up a bipartisan bill by the end of the year. He also noted that there is “more traction” for reform now than at any other point in the five years since Fannie Mae and Freddie Mac were placed into conservatorship.

The objective of yesterday’s hearing was to hear testimony by four experts on potential reforms, including those contained in a bill (S. 1217) by Senators Bob Corker (R-TN) and Mark Warner (D-VA). Among other things, the Corker-Warner bill would wind down Fannie Mae and Freddie Mac, replace them with a Federal insurer of mortgage-backed securities, and require private investors to be in the first-loss position on those securities.

The hearing featured testimony from four industry experts: Julia Gordon, Director of Housing Finance and Policy at the Center for American Progress; Jerome T. Lienhard, II, Chief Executive Officer at SunTrust Mortgage, Inc.; Richard Johns, Executive Director of The Structured Finance Industry Group; and Dr. Mark Zandi, Chief Economist of Moody’s Analytics.

All four witnesses generally supported the structure contemplated by the Corker-Warner bill, particularly with regard to the existence of a government guarantee, and emphasized the continued importance of maintaining a robust TBA (“to-be-announced”) market. In addition, there was testimony about: (1) how to support affordable housing, including whether to impose assessments on all securitized mortgages (not just Federally-guaranteed MBS) to pay for housing trust funds; (2) the appropriate level for down-payment requirements; and (3) how the Corker-Warner bill would impact small and regional banks. Senator Corker indicated that more work needed to be done to ensure that regional banks “end up in a good place,” while Senator Warner stated that he was open to improving how the bill treats regional banks.

The hearing demonstrates that the Committee is moving faster than expected toward a bipartisan bill on housing finance reform. Indeed, Senator Corker noted during the hearing that 10 of the Committee’s 22 members (5 Republicans and 5 Democrats) are already co-sponsors of the Corker-Warner bill.

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