Moving Housing Forward Act

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Background

- Housing finance reform remains unaddressed eight years after the housing crisis. In the midst of the 2008 crisis, the Administration placed the Government Sponsored Entities (GSEs), known as Fannie Mae and Freddie Mac, into government conservatorship.

The Problem

- The status quo places taxpayers at risk for future bailouts of these institutions and impacts access to credit for borrowers. On average, borrowers need a FICO score that is 50 points higher than they did 15 years ago. As a leading economic driver for the United States and an important asset for middle-class savings, stability in the housing sector and adequate access to mortgages for home buyers is imperative.
- To ensure affordable mortgages are widely available to home buyers in rural and urban areas, investors in mortgage backed securities (MBS) require the liquidity provided by a government guarantee. However, the government guarantee places taxpayers at risk and relies on a government entity to accurately price risk, something the government has not historically done well.

The Solution

- The Moving Housing Forward Act establishes a risk-sharing pilot program designed to protect affordable 30 year fixed-rate mortgages while using a private sector mechanism to price risk and protect taxpayers from future bailouts.
- The mortgage credit risk sharing pilot program for Fannie Mae and Freddie Mac will gather data for comprehensive reform in the future. Under the pilot program, the GSEs shall conduct risk-sharing transactions with the following requirements:
    - The underlying securities are a representative sample of the GSE book of business excluding their temporary refinancing programs. The program will be equal to approximately 5% of the book of business (approx. $50 Billion) on an annual basis, providing quarterly flexibility.
    - The private sector is in a First Loss Position (expected/unexpected loss) with approximately 5% of credit risk being sold off annually on average. The coverage of the Second Loss Position (catastrophic loss) is shared 90% and 10% between GSEs and private sector on a *pari passu* basis, meaning equal footing and equal seniority. For example, if the GSEs complete risk-sharing transactions pursuant to this Act for mortgages with Unpaid Principal Balance of $50 Billion, then they will sell approximately $2.5 Billion of Expected and Unexpected Loss and $4.75 Billion of Catastrophic Loss.
    - If economic considerations warrant, the Director of FHFA and Secretary of Treasury may alter the program's risk-sharing requirements.
    - The pilot program does not affect current credit risk-sharing transactions being conducted by the GSEs and retains the ability for execution of MBS through the To-Be-Announced market.

The Benefits

- This legislation pushes the regulators and GSEs to explore new and innovative means of sharing risk and broaden the market for credit risk transfer transactions.
- This pilot provides real-world feedback to help Congress act on comprehensive housing finance reform.
- The bill advances a system that provides the liquidity of the government guarantee with the benefits of private sector pricing. Thus, this innovative structure works to ensure both affordability of mortgages and fiscal responsibility— an idea that appeals to both sides of the aisle.