

[Banking and Finance Law Daily Wrap Up, TOP STORY—Crapo outlines plan for Senate Banking Committee to reform housing finance system, \(Feb. 4, 2019\)](#)

Banking and Finance Law Daily Wrap Up

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Crapo has laid out his committee's plans for housing finance reform legislation and released a proposal outlining his plans, which has drawn support and criticism.

Senate Banking Committee Chairman Mike Crapo (R-Idaho) has laid out his committee's plans for "critically needed" housing finance reform legislation. Crapo [listed](#) his priorities as establishing stronger levels of taxpayer protection, preserving the 30-year fixed rate mortgage, increasing competition among mortgage guarantors, and promoting access to affordable housing. Ranking Member Sherrod Brown (D-Ohio) [responded](#) to Crapo's outline by asserting his intention to fight to make sure "any efforts to reform the housing market start by addressing the affordability crisis that is hurting too many renters and homeowners across this country."

Crapo referenced the ongoing conservatorship of Fannie Mae and Freddie Mac, stating that the "perpetual conservatorship is not sustainable, nor is it in the best interest of consumers, taxpayers, investors, lenders or the broader economy." Crapo's [proposal](#) is intended to establish new layers of protection between mortgage credit risk and taxpayers and to promote broad accessibility to mortgage credit, including in underserved markets.

The proposal would change:

1. Mortgage guarantors will be private companies. No guarantor will be permitted to have more than a designated percent of all outstanding guaranteed eligible mortgages within a specified number of years after enactment of the legislation. And all guarantors will be required to be fully capitalized within a certain number of years after enactment of the legislation.
2. FHFA's structure will be changed so that it is run by a bipartisan board of directors instead of a single director, and the agency will charter, regulate, and supervise guarantors.
3. The proposal would replace the current affordable housing goals and duty-to-serve requirements with a new Market Access Fund, which are intended to "provide grants, loans, and credit enhancement to address the homeownership and rental housing needs in underserved and low-income communities."

Secretary of the Treasury Steven T. Mnuchin [called](#) Crapo's outline for housing reform legislation "a productive first step" and Rep. Patrick McHenry (R-NC), member of the House Financial Services Committee, [agreed](#) that it's "critical we explore all paths toward responsibly ending the government sponsorship of Fannie Mae and Freddie Mac." McHenry stated that "the time is now to resolve this issue."

Consumer groups respond. Competitive Enterprise Institute (CEI) senior Fellow Jon Berlau [stated](#) that Crapo's proposal "would make matters much worse for taxpayers and consumers." Berlau listed two reasons for his opposition to Crapo's plan.

1. The proposal calls for explicit government guarantees of mortgage-backed securities, which would presumably replace the implied guarantees Fannie Mae and Freddie Mac currently enjoy. The problem is that imposing an explicit liability on the taxpayers could mean more risk for the housing finance system, as it could spur a rush to make mortgages that come with explicit government backing.
2. The plan would create even more housing 'trust funds' to be funded by the proceeds of the GSEs, with the potential to harm consumers and taxpayers because such funds would lack the oversight that comes with congressional appropriations and could be subject to politicization and misuse.

Instead, Berlau proposed phasing out the government's role "by reducing both explicit and implicit guarantees and by cutting the red tape strangling prudent borrowers, lenders, and investors."

The National Community Reinvestment Coalition (NCRC) Jesse Van Tol NCRC CEO [called](#) Crapo's proposal a "reckless plan to get rid of affordable housing goals that have made homeownership possible for millions of creditworthy Americans since the goals were mandated in 1992." According to Van Tol, the plan "makes no sense" and "Abolishing the affordable-housing goals is a bad idea. Period."

Companies: Competitive Enterprise Institute; Fannie Mae; Freddie Mac; National Community Reinvestment Coalition

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