

[Banking and Finance Law Daily Wrap Up, GOVERNMENT SPONSORED ENTERPRISES—Trump directs Treasury, other agencies to reform housing finance system, \(Mar. 28, 2019\)](#)

Banking and Finance Law Daily Wrap Up

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By [Charles A. Menke, J.D.](#)

President Trump is directing the Treasury Department to develop an administrative and legislative framework to reform the country's housing finance system to reduce taxpayer risks, expand the private sector's role, modernize government housing programs, and achieve sustainable home ownership.

President Donald Trump issued a memorandum directing Treasury Secretary Steven T. Mnuchin to develop a comprehensive housing finance plan consisting of administrative and legislative reforms to promote competition in the housing finance market, protect taxpayer dollars, and achieve other stated goals. The release of the [memorandum](#) and an accompanying [fact sheet](#) coincide with hearings currently being held by the Senate Banking Committee to assess an outline put forth by committee chairman Sen. Mike Crapo (R-Idaho) that would be the basis for housing finance reform legislation (see [Banking and Finance Law Daily](#), March 27, 2019).

Goals. The Treasury reform plan is to be submitted to the President for approval, through the Assistant to the President for Economic Policy, as soon as practicable, and must achieve the following goals:

- ending the conservatorships of Fannie Mae and Freddie Mac (the GSEs) upon the completion of specified reforms;
- facilitating competition in the housing finance market;
- establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and
- providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market.

Reform proposals, objectives. The plan also must include reform proposals to achieve the following specific objectives:

- preserving access for qualified homebuyers to 30-year fixed-rate mortgages and other mortgage options that best serve the financial needs of potential homebuyers;
- maintaining equal access to the federal housing finance system for lenders of all sizes, charter types, and geographic locations, including the maintenance of a cash window for loan sales;
- establishing appropriate capital and liquidity requirements for the GSEs;
- increasing competition and participation of the private sector in the mortgage market;
- mitigating the risks undertaken by the GSEs, including by altering, if necessary, their respective policies on loan limits, program and product offering, credit underwriting parameters, and the use of private capital to transfer credit risk;
- recommending appropriate size and risk profiles for the GSEs' retained mortgage and investment portfolios;
- defining the role of the GSEs in multifamily mortgage finance;
- defining the mission of the Federal Home Loan Bank system and its role in supporting federal housing finance;
- evaluating, in consultation with the Department of Housing and Urban Development and the Consumer Financial Protection Bureau, the "QM Patch," which exempts the GSEs from certain requirements of the Qualified Mortgage rule determination;

- defining the GSEs' role in promoting affordable housing without duplicating support provided by the Federal Housing Administration or other federal programs; and
- setting necessary conditions for terminating the GSEs' conservatorships, which must include, among other requirements, that the federal government be fully compensated for the explicit and implicit guarantees provided to the GSEs.

HUD reform. The memorandum directs HUD to similarly develop a plan for administrative and legislative reforms to achieve several housing reform goals, including attempting to ensure that the FHA and Government National Mortgage Association assume primary responsibility for providing housing finance support to low- and moderate-income families that cannot be fulfilled through traditional underwriting. The HUD reform plan also must reduce taxpayer exposure through improved risk management and program and product design, and modernize FHA and GNMA operations and technology. Similar to the Treasury plan, the HUD plan must likewise include reform proposals to achieve a number of stated objectives.

Treasury statement. Mnuchin [said](#) he "look[s] forward to working with the FHFA, HUD, Congress, and other stakeholders to address the need for housing finance reform" in accordance with the memorandum's directives. Mnuchin also expressed support for "a system that provides for access to lending for hardworking Americans, while also protecting taxpayers from risk," and added that "an effective and efficient federal housing finance system will also meaningfully contribute to economic growth."

Consumer Federation of America. A Consumer Federation of America [blog post](#) characterized the President's memorandum as "a plan to come up with a plan" based on a perceived lack of details. "The broad directives in the memo echo recommendations and principles that have been proposed in numerous forums over the last ten years from both Republican and Democratic sponsors, and outside groups including lenders, consumer advocates and think tanks across the ideological spectrum," the CFA said. "It provides no details on how the enunciated principles will be executed or how the various obstacles that have prevented reforms consistent with these principles to date will be overcome."

The group noted, however, the memo's "explicit focus on the full range of the federal government's various supports and interventions in the housing market ... rather than a narrow focus on only the GSEs." The CFA characterized this aspect of the memo as "provocative and welcome."

The CFA blog post also commented on the Senate Banking Committee's actions, stating that the "hearings showcased the wide range of specific proposals that have been circulating for years but they did not offer a clear path forward for legislative action." In contrast, the memorandum's "focus on potential administrative actions may mean that change in the status quo is closer than it was at the beginning of the week."

Companies: Consumer Federation of America; Fannie Mae; Freddie Mac

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