NAR Issue Summaries

Conventional Residential Lending / Government-Sponsored Enterprises

NAR Committee:

Conventional Financing and Policy Committee

What is the fundamental issue?

On September 7, 2008, the Federal Housing Finance Agency (FHFA) placed Fannie Mae and Freddie Mac (the government sponsored enterprises, or GSEs) into conservatorship. FHFA explained it took this action "to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their [housing] mission, and mitigate the systemic risk that has contributed directly to the instability in the current market." The conservatorship continues today.

I am a real estate professional. What does this mean for my business?

Fannie Mae and Freddie Mac play a key role in the secondary mortgage market, which is crucial in providing capital for mortgage lending. During the housing finance sector's collapse, private capital withdrew from mortgage markets having a significant, competing role with the GSEs. Without the government's support of the GSEs and FHA-insured loans, which currently constitute a large portion of the market space, there would be limited capital available for mortgage lending. This would severely restrict, if not curtail, home sales and any supporting ancillary home sales services.

Fannie and Freddie continue to support around 70% of the mortgage market and remain a vital component of the housing finance system. Congress continues to debate changes to the GSEs and the conversatorship model, though the near-term chance of reform remains low. FHFA, the regulator overseeing the GSEs, continues to look at ways of reforming Fannie and Freddie while providing mortgage financing to a broad population while protecting taxpayers from unnecessary risk.

NAR Policy:

NAR believes that Fannie Mae and Freddie Mac should be replaced by a shareholder owned, government-chartered private utility(s) that is subject to tighter regulations on product, revenue generation and use, and retained portfolio practices in a way that ensures competition, innovation, and most importantly the mission of the GSEs continues to meet the needs of consumers and the taxpayer is protected. Moreover, NAR recommends that the entity(s) be managed in such a way as to encourage private capital's participation in the secondary mortgage market. Additionally, NAR believes that the future housing finance system must ensure that there is mortgage capital in all markets at all times and under all economic conditions, and that there is an explicit government guarantee in the secondary market, which should ensure the availability of long term, fixed-rate mortgage products (i.e. 30-yr fixed-rate mortgage).

Read NAR's Housing Finance Reform Principles

Opposition Arguments:

500 New Jersey Avenue, NW
Washington, DC 20001
(800) 874-6500
nar.realtor

Opponents of NAR policy believe the government should not be involved in the mortgage market. Rather, they believe free market competition will provide better pricing and access to credit for consumers and businesses.

Legislative/Regulatory Status/Outlook

Over the years, Congress has put forth a number of plans to reform the GSEs that were stymied by political and/or design issues. It is unlikely that comprehensive housing finance reform legislation will be signed into law in the near future. However, there is a growing consensus as to features that any reform plan must include: some form of a government guarantee, broad access for consumers, participation of private capital, a 30-year fixed rate mortgage, stronger capital requirements, and an empowered regulator.

Since 2018, the GSEs' regulator, the Federal Housing Finance Agency (FHFA), has pushed the GSEs to reform some practices and to reduce their footprint in the market. In the fall of 2020, the FHFA adopted a capital plan that most observers believe will undermine the GSEs' charter duties of providing liquidity to the market and will raise costs for consumers. These actions were intended to prepare the GSEs for a return to private ownership, though many believe the actions are inadequate to prevent a return to the pre-financial crisis behavior.

In January of 2021, the FHFA acting as the board of directors for the GSEs under conservatorship, amended an agreement between the GSEs and the Treasury. These amendments, known as the Preferred Stock Purchase Agreements (PSPA), provide the GSEs with financial support in a crisis if they comply with certain rules. The changes to the PSPA adopted in January 2021 limit the GSEs ability to support investor, second home, and underserved communities as well as small lenders and force the GSEs to adopt and permanently comply with the proposed onerous capital rule.

The Biden administration was expected to revisit these PSPA agreements with new leadership at the FHFA and Treasury with an eye toward improving liquidity in the market, regulatory oversight, and affordability and access for underserved communities. During the Biden administration, the FHFA had announced a number of reforms to the capital rule and continued to make changes to the structure and function of the GSEs in lieu of broader and more exhaustive reforms from Congress. The Biden administration placed an emphasis on expanding access to credit and exploring solutions to help traditionally underserved communities.

With the change in administration, talks of GSE reform are resurfacing. President Trump, the Treasury Department, and FHFA have noted that they are interested in ending the conservatorships, but details have not been publicly discussed. Options range from recapping and releasing Fannie and Freddie, using their revenues to fund a sovereign wealth fund, or combining the GSEs into a single entity. We continue to monitor the situation and provide feedback when necessary to ensure the markets continue to function.

Current Legislation/Regulation (bill number or regulation)

None at this time.

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Legislative Contact(s):

Matt Emery, MEmery@nar.realtor, 202-383-1212
Ken Fears, kfears@nar.realtor, 202-383-1066

Regulatory Contact(s):

Matt Emery, MEmery@nar.realtor, 202-383-1212
Ken Fears, kfears@nar.realtor, 202-383-1066