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Treasury's Goldstein Pens White House Blog Post: "Moving Forward on Housing Finance Reform"

WASHINGTON – In a post on the White House Blog, Jeffrey A. Goldstein, Under Secretary for Domestic Finance at the U.S. Treasury Department, outlined the Obama Administration's efforts to date in the area of housing finance reform, as well as the current state of our nation's housing finance system. It also reiterated the Administration's commitment to continued public engagement on this issue, including the hosting of an August 17 "Conference on the Future of Housing Finance*"* at the U.S. Treasury Department in Washington, D.C. To read the piece online, visit link. The text of the piece follows:

Moving Forward on Housing Finance Reform

Posted by Jeffrey A. Goldstein

The housing industry is of vital importance to our country's future. It is a key sector of our economy, supporting millions of jobs in construction, manufacturing, real estate, finance, and other industries. Moreover, for many Americans, their home is their largest financial investment.

That is why the Obama Administration is strongly committed to responsibly reforming our nation's broken system of housing finance, including Fannie Mae and Freddie Mac. And that is why it is so important that we get the reforms right.

Work on this issue is well under way, as the Obama Administration continues to develop a comprehensive reform proposal for delivery to Congress by January 2011. Earlier this year, Secretaries Geithner and Donovan testified before Congress, outlining the principles that will guide the Administration's housing finance reform efforts. In April, the Treasury Department and the Department of Housing and Urban Development issued related questions for public comment, which have received over 300 responses from a broad cross-section of stakeholders. (To view these responses, please visit the links below.)

That commitment to public engagement will continue. Today, the Administration is announcing that it will hold on August 17 a *Conference on the Future of Housing Finance* at the U.S. Treasury Department in Washington, D.C. This event will bring together leading academic experts, consumer and community organizations, industry groups, market participants, and other stakeholders for an open discussion about housing finance reform.

As we continue moving forward, it is critical to maintain an open, productive public dialogue about how best to address a housing finance system that everyone – across both sides of the aisle – agrees is in clear need of reform. To help inform this debate, it is useful to offer some context about the Administration's efforts to date in this area and the current state of our nation's housing finance system.

Stabilizing the Housing Market

In September 2008, the Bush Administration put Fannie Mae and Freddie Mac into conservatorship and began injecting taxpayer funds into those firms in order to keep them afloat. When President Obama took office in January 2009, he inherited not only this conservatorship arrangement, but also a mortgage market and economy in free-fall.

From the beginning, the Obama Administration has made clear that the current structure of the government's role in the housing finance market is unsustainable and unacceptable. Fundamental reform was clearly needed. But abrupt change or an uncertain reform process in the midst of the financial crisis could have destabilized an already fragile housing industry and made it even more difficult for Americans to buy a home or refinance a mortgage. Continuing to provide financial support to Fannie Mae and Freddie Mac was the right decision then for the mortgage market and for our economic recovery – and it has played a critical role in stabilizing the housing industry during a period of crisis. Even today, private capital has not yet fully returned to this market. Fannie Mae, Freddie Mac, and other government entities guarantee more than 90 percent of newly originated mortgages. They are practically the only game in town.

Fannie and Freddie under Conservatorship

During their two years in conservatorship, Fannie Mae and Freddie Mac have been tightly supervised and regulated. Fannie and Freddie have made significant progress in improving the credit quality of their new obligations. Since 2008, FICO scores and loan-to-value ratios – both of which are key measures of how likely a borrower is to default – are meaningfully better on new mortgages. Fannie and Freddie have also increased their guarantee fees and risk-adjusted their pricing.

The losses that the federal government has had to backstop are virtually all attributable to bad loans that Fannie and Freddie took on between 2005 and 2007 – during the height of the housing bubble. Unfortunately, we still need to manage the continuing consequences of those poor credit choices.

Of course, none of these facts eliminate the need to take a hard and comprehensive look at long-term solutions for our nation's system of housing finance. But they do offer important context about the numbers behind the headlines on Fannie Mae and Freddie Mac.

Responsible Reform

The size, importance, and complexity of the housing finance market all compel us to craft its reform with great care:

o The U.S. mortgage market is the second largest securities market in the world, after U.S. Treasuries.

o Fannie Mae and Freddie Mac currently guarantee more than $5 trillion in mortgages and hold a total of $1.6 trillion in agency loans and other securities in their portfolios.

o Fannie Mae and Freddie Mac are only one part of a broader housing finance system that includes the Federal Housing Administration, Ginnie Mae, the FHLBanks, other government programs, and a significant private sector role in originating, funding, and servicing mortgage loans.

o For decades, Fannie Mae and Freddie Mac privatized their profits while ultimately putting taxpayers at risk for losses. This type of "heads private shareholders win, tails taxpayers lose" system of misaligned incentives makes no sense for the nation.

Housing finance reform needs to address these and other complex issues responsibly. That is why the Obama Administration is committed to an open and inclusive public dialogue about the future of U.S. housing finance. Given the importance of this task, we want to hear the best ideas from all sides of the debate. Working together with our colleagues in Congress, we believe that this is the right path forward to achieve responsible reform.

Jeffrey A. Goldstein is Under Secretary for Domestic Finance at the U.S. Treasury Department

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