H.R. 1859: Housing Finance Reform Act of 2011

Introduced by Rep. John Campbell (R-CA) along with lead cosponsor, Rep. Gary Peters (D-MI)

Legislative Summary:

- ***Winds down Fannie and Freddie:*** The FHFA will be tasked with coming up with a transition plan for fully unwinding the GSEs, and putting in place the new system of private associations. The existing enterprises can be terminated within one year of five associations being chartered, or at the latest no more than 3 years after the first two associations are chartered.

- ***Limits Taxpayer Liability*:** By offering a guarantee on the securities rather than on the entity issuing the securities, and by creating a Reserve Fund to cover any losses, the Housing Finance Reform Act ensures that private sector capital is at risk rather than the taxpayer funds. Should the Reserve Fund be depleted and federal dollars expended, taxpayers would be compensated through a special assessment levied on associations issuing securities.

- ***Encourages Private Sector Investment in the Secondary Mortgage Market*:** The Fannie Mae and Freddie Mac hybrid model of privatized gains and subsidized losses is eliminated. Instead, privately capitalized associations will be chartered to securitize residential mortgages.

- ***Accurately Prices Risk*:** The Housing Finance Reform Act requires the independent GAO to issue a detailed report assessing what the actual risk associated with the guarantee is, and requires regulators to use this report when adopting a guarantee fee. If the fee is underpriced and the Reserve Fund does not have sufficient funds to cover its obligations a special assessment will ensure that taxpayers are not exposed to losses.

- ***Limited Charter*:** Associations will receive a narrow charter, limiting these companies from engaging in activity that is inconsistent with preserving the accessibility of traditional mortgage products. Associations cannot originate or service mortgages, and their investment and other activities are limited. They also cannot issue securities backed by anything other than conventional residential mortgage products guaranteed by the government.

- ***Preserves Access to 30 Year Fixed Rate Mortgage:*** Without a secondary mortgage market, loan originators are unlikely to offer long term fixed rate mortgages because they do not want to bear the risk of fluctuating interest rates. The Housing Finance Reform Act ensures a strong secondary mortgage market by providing a government guarantee to investors in residential mortgage backed securities.