



Consumer Federation of America

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Johnson-Crapo Draft Bill on GSE Reform Is An Important Next Step

Washington, DC – A draft bill released by Senate Banking Committee Chairman Tim Johnson (D-SD) and Ranking Minority Member Mike Crapo (R-ID) is an important next step in the development of comprehensive housing finance reform, according to Barry Zigas, Director of Housing Policy for Consumer Federation of America (CFA).

“The Senate Committee on Banking, Housing and Urban Affairs under Sens. Johnson and Crapo has capped a lengthy series of hearings, meetings with stakeholders and intensive discussions within the committee with a new draft bill that establishes an important series of bipartisan agreements that would benefit consumers,” Zigas said. “The bill does not provide everything CFA and other consumer and civil rights advocates had promoted; it is going to need much more work. But it is a starting point and we look forward to working with the Committee to improve it.”

The new draft, released midday Sunday, March 16, 2014, builds on an earlier bill, S. 1217, introduced by Sens. Bob Corker (R-TN) and Mark Warner (D-VA) and cosponsored by a bipartisan group of ten of their Committee colleagues. The new bill would replace Fannie Mae and Freddie Mac, after a transition period, and establish a new Federal Mortgage Insurance Corporation (FMIC) to provide a federal guarantee to qualifying mortgage backed securities to cover losses to investors once a deep layer of private capital determined by FMIC is exhausted.

“Most importantly, the draft bill reaffirms the importance of a federal role to insure that sustainable mortgage credit is made available as broadly as possible to credit worthy borrowers, and that this role must include a federal guarantee of a defined kind of mortgage backed security,” Zigas said. “We believe these two ingredients are key to insuring consumers have access to affordable, long-term fixed rate mortgages.”

In addition, he noted, the draft bill establishes a new fee of 10 basis points (10/100ths of a percent) on all outstanding guaranteed securities to finance a range of investments in affordable housing and community development; establishes a new Market Access Fund to foster innovation and expand liquidity in hard to serve markets; and directs the new federal guarantor to monitor the market and ensure that it is broadly serving all markets through the full range of business cycles through a new Office of Consumer and Market Access within the federal guarantor.

Support for Affordable Rental Housing

The Johnson-Crapo bill also would support financing for multifamily housing by building on the current multifamily business lines at Fannie Mae and Freddie Mac. These businesses have been profitable throughout the Great Recession, unlike the companies' single family credit guarantee business. Their ability to continue to provide liquidity for rental housing was critically important when other sources of capital for this important segment dried up. The bill would continue the basic risk-sharing models Fannie and Freddie have operated for years, but not at the companies. The bill would require at least 60 percent of the each aggregator's units financed through the FMIC's guarantee authority to have rents not greater than 30 percent of a low income household's income. Such households are defined as having not more than 80 percent of the Area Median Income (AMI), determined by HUD and adjusted for family size.

"An adequate supply of capital for affordable rental housing is critical to the millions of Americans who rent their homes, and for emerging new households that cannot or do not wish to become homeowners now," Zigas said.

Barry Zigas will be available for comment at 202 679 0169 throughout the day on Monday, March 17.

The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. www.consumerfed.org