Consumer Federation of America

For Immediate Release:
June 25, 2013

Contact:
Barry Zigas, 202-966-1660

CORKER-WARNER MORTGAGE REFORM BILL MARKS AN IMPORTANT NEXT STEP

Washington D.C. -- The introduction this week of proposed legislation by Sens. Bob Corker (R-TN) and Mark Warner (D-VA) and a bipartisan group of four additional Senators marks an important step forward in restoring a durable mortgage finance market for consumers, but needs to have a strengthened emphasis on providing broad access to credit for consumers on reasonable terms, said Consumer Federation of America Director of Housing Policy Barry Zigas today.

"The Corker-Warner bill reaffirms a bipartisan agreement that the US government has an important role to play in assuring that American consumers have access to sustainable, long term mortgage credit," said Zigas. "The bill embraces principles that have been endorsed by industry, consumer groups, and, in February 2013, by the Bipartisan Policy Center's housing commission report." Zigas serves as one of 21 members of that commission. "But the bill as drafted tilts too heavily toward meeting the needs of lenders and investors, and not enough toward making sure that the proposed structure is responsible for assuring that credit worthy consumers across a broad range of circumstances and neighborhoods can obtain home financing at a reasonable cost."

The bill would establish a new so-called "Federal Mortgage Insurance Corporation" to provide a credit guarantee to investors in a limited type of mortgage bond. The insurance would be paid for by consumers through a charge on their mortgages. Under the bill, the government insurance would kick in only after a deep layer of private risk bearing capital was exhausted in fulfilling obligations to investors. The new corporation would have regulatory authority to set the terms and issuers of such credit insurance, and these entities would have no recourse to the FMIC for their own solvency or the benefit of their shareholders or creditors. Separate entities would issue the mortgage securities, and private lenders would originate them through direct relationships with consumers. This design separates out what were a set of features combined within Fannie Mae and Freddie Mac.

"This design emphasizes that the federal government and US taxpayers should be the 'last resort' source of credit support if loans backing mortgage securities fail in large numbers," Zigas said. "The FMIC's commitment would reassure mortgage bond investors without creating ‘too big to fail’ institutions relying on an assumed or implicit government guarantee for their own survival.”

Stimulating Broader Access and Innovation

The bill also would support funding to help insure that the mortgage finance system can assure access for credit worthy low and moderate income borrowers that might not be well served by private risk insurers, and to partner with those insurers to identify responsible innovations through which sustainable credit can be made available. These activities would be financed through a small annual fee of between 5 and 10 basis points – hundredths of a percent – on mortgage securities benefitting from the FMIC’s insurance. This revenue also would be used to support the other purposes of the National Housing Trust Fund established in HUD in 2008 and the Capital Magnet Fund in the US Treasury.

“No new mortgage finance system will be successful if it does not provide a way to address underserved markets and borrowers, and to partner with the private sector to extend credit in responsible but untried ways,” said Zigas. “The inclusion of the proposed funding in the Corker-Warner bill is critically important to assuring effective credit access by all Americans and to help fund the needs of lower income renters who are bearing historically high rent burdens.”

Further Changes Urged

In spite of the many positive aspects of the Corker-Warner proposal, Zigas called for further changes to enhance its value to American consumers. Specifically, Zigas called for the following changes:

- The proposed bill’s purposes should be expanded to explicitly emphasize the FMIC’s obligation to assure access to responsible, sustainable, long term mortgage credit for US consumers across the broadest possible range of creditworthy borrowers and in all communities across the country.
- The bill’s proposed minimum 5 percent down payment requirement for mortgages backing the insured securities should be removed. A mandatory 5 percent down payment requirement may bar financing for too many households, and needlessly ties the proposed insurer’s hands. Setting the terms for these mortgages should be left to a rulemaking process at the proposed agency after the full range of other underwriting considerations that make up comprehensive, responsible underwriting have been assessed.
- The FMIC’s board should include a member charged specifically with representing public and consumer interests, with experience and credentials in these areas, in addition to the industry-oriented members specified in the bill

- The FMIC should require servicers of its securities to assure fair treatment of consumers and reasonable processes for loan modifications and other steps for owners' benefit if they run into trouble with their mortgage. The current draft specifies only maximizing return to investors in this regard.

Many Steps Yet Lie Ahead

The introduction of the Corker-Warner proposal is a promising, but very early step on what will likely be a years-long effort to replace Fannie Mae and Freddie Mac with a durable mortgage finance system.

"Since Fannie Mae and Freddie Mac were forced into conservatorship at the start of the financial crisis in 2008, the US government has carried the credit risk for 90 percent of America's home mortgages," Zigas noted. "The companies' ability to operate under conservatorship has assured a steady flow of credit to many Americans, and the FHA's increased participation has complemented their role. But this overwhelming dependence on full federal support for mortgage bonds across such a wide swath of the market is not a desirable long-term situation," he added.

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.