Republicans Dive Head First into GSE Reform with Eight New Bills

By: Jann Swanson | Wed, Mar 30 2011, 10:05 AM

The House Republicans who will ultimately have the most influence on the decision have come out with a plan for reforming the two government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.

Scott Garrett (R-NJ) Chairman of the House Financial Services Subcommittee on Capital Markets and Government-Sponsored Enterprises released what was actually a **summary of eight bills**, each covering a different aspect of reform and each introduced by a different member of the parent Financial Services Committee. They cover a broad range of issues involved in bringing the government's conservatorship of the GSEs to an end and establishing a philosophy as well as a new system of financing the housing industry.

Garret said that this is the first in what will be multiple rounds of "**very specific, very targeted bills to end the bailouts, protect the taxpayers and get private capital off the sidelines**." The end result, he said, will formally wind down the GSEs and return the housing finance system to the private marketplace.

"With the American taxpayers on the hook for $150 billion and counting, the bailout of Fannie and Freddie is already the most expensive component of the federal government's intervention into the financial system. Americans are tired of the ongoing bailout of the failed government-backed mortgage giants, and they are tired of Democrats' refusals to address the driving force behind the financial collapse. While Democrats chose to ignore the problem last Congress, House Republicans stand ready to end the bailout and protect American taxpayers from further losses."

Here is a summary of the bills:

The Equity in Government Compensation Act, sponsored by Spencer Bachus (R-AL), Chairman of the House Financial Services Committee.

The bill suspends the current compensation packages for all GSE employees and replaces them with a system consistent with the Executive Schedule and Senior Executive Service of the Federal Government. The bill also expresses the sense of the Congress that the 2010 pay packages for senior executives were excessive and the money should be returned to taxpayers.

The GSE Mission Improvement Act, sponsored by Ed Royce (R-CA)

This legislation would permanently abolish the affordable housing goals of Freddie Mac and Fannie Mae. According to Royce's comments accompanying the bill, these goals were a central cause behind the collapse of the GSEs and the ongoing goal of the GSEs should be to reduce risk to taxpayers rather than expose them to further losses. "To meet these goals, the GSEs purchased more than $1 trillion in 'junk loans.' These loans accounted for a large portion of the mortgage giants' losses - losses that were later loaded onto the backs of American taxpayers."

The Fannie Mae and Freddie Mac Accountability and Transparency for Taxpayers Act (H.R. 31), sponsored by Judy Biggert (R-IL) Chairman of the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity.

This bill would establish an Inspector General (IG) within the Federal Housing Finance Agency (FHFA,) the conservator of the GSEs, provide him/her with additional law enforcement and personnel hiring authority, and require him/her to submit regular reports to Congress on taxpayer liabilities, investment decisions, and management details. These reports would be made publically available.

The GSE Subsidy Elimination Act, sponsored by Randy Neugebauer (R-TX) Chairman of the House Financial Services Subcommittee on Oversight.

The proposed legislation would direct FHFA to phase in an increase in the fees it charges for its guarantee as though they were held to the same capital standards as private financial institutions. The phase-in would be conducted over two years and would, the summary says, level the playing field so that private capital can re-emerge, decreasing the government's exposure to housing market risks.

GSE Portfolio Reduction Act, sponsored by Jeb Hensarling (R-TX), Vice Chairman of the House Financial Services Committee.

This bill would accelerate and formalize the previously established rate of reducing the portfolios of the two GSEs by setting annual limits on the maximum size of each portfolio rather than using the percentage decrease currently in place. The bill would cap the portfolios at $700 beginning in year one and bring them down to $250 billion by the end of year five.

GSE Risk and Activities Limitation Act, sponsored by David Schweikert (R-AZ), Vice Chairman of the House Financial Services Subcommittee on Capital Markets and Government-Sponsored Enterprises.

This bill would prohibit the GSEs from engaging in any new activities or businesses. The bill's sponsor acknowledges that FHFA already has such a prohibition in place; the bill merely codifies that prohibition.

The GSE Debt Issuance Approval Act, Sponsored by Steve Pearce (R-NM).

Under the requirements of this legislation, the Department of the Treasury would have to formally approve any new debt issued by the GSEs. Pearce comments that, "This will help protect taxpayers by requiring the formal legal authority of U.S. debt issuance to approve the issuing of agency debt which is roughly the same as U.S. debt."

GSE Credit Risk Equitable Treatment Act, sponsored by Scott Garrett.

This proposed legislation would apply any of the standards applied to private secondary mortgage market participants to the GSEs. **It would, according to Garrett, ensure that the GSEs are not exempt from new risk-retention rules mandated by Dodd-Frank and that they face the same retention standards as private market participants**. Garrett said this bill will make clear that Fannie Mae and Freddie Mac will be held to the same standards as any other secondary mortgage market participants. Under Dodd-Frank, Fannie and Freddie could still be able to purchase a mortgage from a financial institution that falls outside of the Qualified Residential Mortgage (QRM) definition and issue asset-backed securities backed by non-QRM assets. Garrett's bill would clarify that a GSE loan purchase or asset-backed security issuance would not affect the status of the underlying assets. If the GSEs purchase a non-QRM loan, all lender risk-retention requirements will still apply, and if the GSEs issue a non-QRM security, all securitization risk retention rules will still apply.

The Financial Services Subcommittee on Capital Markets and Government-Sponsored Enterprises will hold a legislative hearing on the eight bills Thursday, March 31st and then a markup on Tuesday, April 5th.

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