

Proposed Rule to Require Gov't-Sponsored Agencies to Develop Contingency Plans

By: Jann Swanson | Thu, Dec 24 2020, 11:18 AM

The Federal Housing Finance Agency (FHFA) has released a notice of proposed rulemaking that would **require Fannie Mae and Freddie Mac (the GSEs) to develop resolution plans**. FHFA says these plans "would facilitate a rapid and orderly resolution should FHFA have to be appointed their receiver under the Housing and Economic Recovery Act of 2008."

According to the press release, the proposal is **designed to ensure the GSEs are prepared** in the same way as financial institutions regulated by the Federal Reserve and the Federal Deposit Insurance Corporation to react to another adverse financial situation. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, larger institutions **must submit living wills that detail how their core business lines would be maintained** to prevent the kind of widespread disruption triggered by the failure of Lehman Brothers and Bear Stearns prior to the Great Recession.

FHFA says the Department of Treasury's 2019 Housing Reform Plan highlighted the need for a credible resolution framework for the GSEs and the Financial Stability Oversight Council recommended living wills for the two companies earlier this year.

The proposed rule will require Fannie Mae and Freddie Mac to show their important business lines would be maintained to ensure continued support for mortgage finance and stabilize the housing finance system, without extraordinary government support to prevent one or both from being placed in receivership, indemnify investors against losses, or fund their resolution.

"The rule proposed today is an **important step toward a stronger housing finance system**. Requiring the [GSEs] to develop living wills, helps FHFA fulfill its responsibility to ensure that the failure [of one] would harm neither taxpayers nor the mortgage market," said Director Mark Calabria. "The proposed rule gives FHFA a tool that supplements its existing statutory authorities to restructure a failed Enterprise so that government does not have to put them into conservatorship again."

The proposed rule will be open for public comment for 60 days after its publication in the *Federal Register*.

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