THE BIPARTISAN HOUSING FINANCE REFORM ACT
SUMMARY OF KEY PROVISIONS

OVERVIEW

- Americans deserve a better single family housing finance model – one that's sustainable and built to last. Sustainable for homeowners so they can keep their homes; sustainable for taxpayers so they are never again asked to rescue an imperiled housing system; and sustainable for our nation's economy so we avoid the boom-bust housing cycles that have hurt so many in the past.

- The goal of the Bipartisan Housing Finance Reform Act is to provide a safe, sustainable, transparent, and liquid mortgage credit market for all Americans wishing to own a home.

- The overarching philosophy of the Bipartisan Housing Finance Reform Act is to create an equal playing field across different ways to finance a single family mortgage, allowing risk to be allocated to those entities which are best able to manage it and avoid too-big-to-fail institutions dominating or restricting access to the mortgage market.

- Instead of introducing new, unproven ideas or creating intricate new structures, the Bipartisan Housing Finance Reform Act builds on the working parts of today's system and known successful pathways to finance mortgages.

- That way it can harness the benefits of the existing framework of Ginnie Mae and the government guarantee it provides, while providing options for how to finance mortgage lending so that we maximize choice for borrowers, loan originators, and investors.

- In many ways, the disaggregated Ginnie Mae issuer model that the Bipartisan Housing Finance Reform Act contemplates as a replacement for the pre-crisis GSE model is already happening, and happening with private capital not taxpayer dollars.

- The Bipartisan Housing Finance Reform Act also seeks to build an affordable housing framework by providing sustainable, dedicated, and transparent funding through an affordability fee. The proposal envisions the fee would provide substantially more funding to address the supply of affordable housing options and directly target underserved individuals and markets that are heavily represented by low-income families and first-time homebuyers.

- The Bipartisan Housing Finance Reform Act recognizes the importance of multifamily financing in providing housing options and affordable rental properties and seeks to preserve what works in the market today. The proposal envisions the current multifamily business of Fannie Mae and Freddie Mac will continue to function within the new multifamily housing market as entities with an explicit government guarantee of their multifamily securities provided by Ginnie Mae.

- The Bipartisan Housing Finance Reform Act recognizes the importance of continuing to work on reforms that revitalize and update tax, investment, and banking laws to reflect the realities of financing mortgages in the modern age, while maintaining appropriate consumer protections and investor rights. The proposal envisions better engaging private sector capital to inform, compete with, and supplement any guarantees provided by the government to ensure a functioning mortgage market under all economic conditions.

PROVIDE BORROWERS MORE CHOICES TO OBTAIN A CONVENTIONAL MORTGAGE LOAN AND ACHIEVE HOMEOWNERSHIP

- Directs Ginnie Mae to establish a new program called Ginnie Mae Plus, which preserves the 30-year fixed rate mortgage.
- Offers borrowers access to conventional home loans by guaranteeing payment to investors of pooled loans backed by private credit enhancers through Ginnie Mae Plus.
- Promotes a robust "to be announced" or "TBA" market for mortgage securities and preserves the liquidity of long-term traditional mortgage products through Ginnie Mae Plus.
- Provides borrowers the benefit of increased options to obtain a safe and affordable loan funded with a Ginnie Mae guarantee.
- Minimizes the impact on today's mortgage rates by utilizing the working parts of today's system and known successful pathways to finance mortgages.
- Increases the liquidity for Ginnie Mae mortgage-backed securities (MBS) and lowers mortgage rates for all borrowers through an expanded pool of eligible loans that can access the Ginnie Mae guarantee.
- Sets eligibility requirements for loans to qualify through Ginnie Mae Plus in a similar manner to those for loans guaranteed in the conventional loan market today, subject to: minimum down payments, maximum loan-to-value (LTV) ratios, conforming loan limits, and meeting the Qualified Mortgage (QM) criteria.
- Allows borrower freedom to choose products that best match their own needs, with additional options available through standardized private capital transactions that can compete with Ginnie Mae on an equal footing.
- Fosters a market that meets borrower demand without restrictions that favor certain products or financing options over others.
- Phases in reforms over time, allowing continued and enhanced access to 30-year fixed rate mortgages and existing government guarantees.

UTILIZE EXISTING AVENUES FOR THE GOVERNMENT GUARANTEE AND PROTECT TAXPAYERS WITH PRIVATE CAPITAL

- Removes Ginnie Mae from HUD and establishes it as an independent entity.

- Continues using Ginnie Mae to guarantee the timely payment of principal and interest to investors of Ginnie Mae MBS.

- Grants Ginnie Mae the authority to guarantee eligible MBS backed by private insurance provided the mortgages meet qualifications through Ginnie Mae Plus and the insurance is provided by qualified a Private Credit Enhancer (PCE).

- Increases the use of private capital in the system by requiring Ginnie Mae Plus issuers to purchase credit insurance from eligible PCEs to qualify for a government guarantee in the secondary market.

- Places the issuer as the last line of private capital before Ginnie Mae steps in to use government funds to pay MBS investors.

- Requires any taxpayer exposure through a government guarantee to be transparent, explicit, and paid for under Ginnie Mae.

- Limits the government guarantee to catastrophic losses and only attaches at the mortgage-backed security level, not at the entity-level.

- Offsets the government's catastrophic risk position through the use of private reinsurance, which would both inform the market price for catastrophic risk as well as syndicate pieces of that credit risk throughout the financial system.

- Expands Ginnie Mae's capabilities to police the financial health of all Ginnie Mae-approved issuers, monitor the application of the government guarantee, and administer affordability enhancement requirements on guaranteed loans.

INCREASE THE NUMBER OF ACCESS POINTS FOR LENDERS TO FINANCE MORTGAGES

- Provides small- and medium-sized lenders more access points to finance mortgages than they have today.

- Requires new mortgage funding access points to allow local institutions to maintain their relationship with the borrower.

- Provides a pathway for a lender of any size to qualify as a Ginnie Mae-approved issuer and directly access the liquidity of the secondary mortgage market without the need for an intermediary.

- Enhances the aggregation capabilities of the 400+ Ginnie Mae issuers today, many of which are small lenders, to allow for robust competition.

- Creates certainty for community lending institutions and their mortgage finance operations by retaining cash window functions equivalent to today’s system through Small Lender Access Programs run by PCEs.

- Ensures access for lenders of all sizes and prohibits price discrimination based on loan production volume.

- Allows the Federal Home Loan Bank (FHLB) system to participate as a Ginnie Mae issuer and aggregate loans through a cash window for its members.

- Offers the ability to finance loans secured with private capital by allowing lenders to sell or issue loans directly through a Common Securitization Platform.

MODERNIZE THE MORTGAGE CREDIT RISK SYSTEM THROUGH PRIVATE CREDIT ENHANCERS

- Establishes approval and oversight criteria for Private Credit Enhancers (PCEs) as new secondary market entities that replace many of today’s functions that reside at the GSEs.

- Allows PCEs to charge a guarantee fee in exchange for covering loan-level credit risk on a pool of mortgages backing a government-guaranteed MBS through Ginnie Mae.

- Requires PCEs to hold a bank-like amount of capital through equity ownership, a significant amount of credit risk transfer coverage, and participation in a backstop reserve fund.

- Requires PCEs to obtain external private capital in a “first loss” position to horizontally defray and syndicate credit risk to willing counterparties.

- Tasks FHFA to establish regulatory capital standards that meet bank-like requirements.

- Requires PCEs to hold capital that consists of equity capital and qualifying credit risk transfers sufficient to protect taxpayers in all but the most catastrophic scenario.

- Establishes a Private Capital Reserves fund to backstop PCEs, capitalized by assessments on guaranteed loans through a fee set by FHFA using private sector reinsurance tools to determine current market risk conditions.

- Mandates that the balance of Private Capital Reserves meet 2 percent of the total unpaid principal balance guaranteed by PCEs.

- Requires private credit enhancers and other market participants to operate on a non-discriminatory basis and comply with all applicable federal rules and regulations, including the Fair Housing Act and the Equal Credit Opportunity Act.

REIGNITE THE PRIVATE LABEL MARKET THROUGH STANDARDIZATION AND A COMMON INFRASTRUCTURE PLATFORM

- Establishes a new non-government, not-for-profit Mortgage Security Market Exchange (Exchange) to develop common “best practices” standards for the private securitizing, pooling, and servicing of mortgages, and operate a publicly accessible securitization outlet to match loan originators with investors.

- Transforms the Common Securitization Platform (CSP) from a proprietary secondary market access point jointly owned by Fannie Mae and Freddie Mac and built only for their benefit, to an open market utility operated by the Exchange.

- Offers lenders and investors for the first time a mortgage security market exchange and data repository to foster liquidity in the private label market and provide standardization of key securitization functions.

- Requires the Exchange to operate the CSP in an open-access and non-discriminatory manner as a conduit for loan originators of all sizes to access the secondary market using common standards and terms in non-government transactions.

- Removes barriers to private capital and provides clear, transparent, and enforceable rules for transactions that will restore market discipline, encourage innovation, and match individuals with global investors outside the government-guaranteed market.

- Gives the FHFA clear ability and instructions on how to transfer ownership of the CSP from the GSEs to the Exchange.

- Requires the transfer of both historical loan-level data and the underwriting technologies used by the GSEs to the Exchange and grants public access to this information.

- Establishes a new mechanism with the Exchange to set and maintain the basic recordation, disclosure, and transparency "best practices" standards for the mortgage industry.

REPEAL THE GSES' CHARTERS AND TRANSITION THEIR SUCCESSORS INTO A NEW SYSTEM WITHOUT SPECIAL PRIVILEGES OR ADVANTAGES

- Repeals the statutory charters for the GSEs.

- Places the successor de-chartered entities of Fannie Mae and Freddie Mac on a sustainable path going forward while ensuring no future market participant needs taxpayer support.

- Repurposes the successor entities to the GSEs into the new system without special privileges and advantages.

- Eases the transition by providing a 5-year window prior to the repeal of the GSE charters.

- Places the GSEs through mandatory receivership to prevent the return of a hybrid private entity-public charter approach.

- Leaves all legacy obligations in a "bad bank" structure along with a formalized guarantee to preserve liquidity in MBS market.

- Repurposes the remaining infrastructure and human capital of the de-chartered GSEs into the new system through a "good bank" structure.

- Restricts activities during conservatorship, including setting limitations on retained portfolios and standardizing guarantee fee pricing.

PROMOTE AFFORDABLE HOUSING, MULTIFAMILY HOUSING, AND MODERNIZATION OF OUR HOUSING FINANCE SYSTEM

- Establishes bipartisan principles to promote affordable housing, multifamily housing, and modernization of our housing finance system (*See Title III of Discussion Draft*).