What Others Are Saying About Making Housing Finance More Sustainable with Front End Risk Sharing

“[T]he status quo is unsustainable for a number of reasons…one the taxpayers again remain at risk, market participants are truly uncertain about the government footprint in the market, that’s not good for mortgage credit, and quite frankly access and pricing decisions ought to be in the hands of private market actors and not government agencies…Following the institution of the PMIERs [Private Mortgage Insurance Eligibility Requirements] standards and waiting to make sure that there are very strong counterparties and looking at various front-end and deeper coverage which could include reinsurers as well as MIs [Mortgage Insurers], we think it’s important to really test the proposition that it is possible for well capitalized mortgage insurance companies and other credit enhancers to take that deeper, whether its loan level or pool level risk, and do it in a way that is possibly cheaper to the borrower.”

Michael Stegman
Special Assistant to the President, National Economic Council
Former Counselor to Secretary for Housing Finance Policy, U.S. Department of the Treasury
April 14, 2015

“Title 7 [of the Financial Regulatory Improvement Act of 2015] contains a number of provisions that reflect the work done by this committee over the past couple of years on improving market access for mortgage finance. Each provision in this title has received bipartisan support at one time or another. Further, there is nothing in this Title that prejudices the next iteration of housing finance reform. These provisions, however, are important first steps in what needs to be a serious, bipartisan effort to reform our mortgage finance system. I would like to thank Senator Corker for his continued focus in this area and his efforts to keep this issue on the table.”

Senator Richard Shelby
Chairman, United States Senate Committee on Banking, Housing, & Urban Affairs
May 21, 2015

"Language included in Title VII [of the Financial Regulatory Improvement Act of 2015] will require FHFA and the GSEs to continue to expand risk-sharing programs and increase reporting on risk-sharing plans and timelines, which will cause the private sector to assume more credit risk in the mortgage market, a goal shared by both parties."

Senator Bob Corker
Member, United States Senate Committee on Banking, Housing, & Urban Affairs
May 21, 2015

“The FHFA’s Strategic Plan calls for Fannie Mae and Freddie Mac to reduce taxpayer risk by increasing the role of private capital in the mortgage market...Currently standard mortgage insurance will take a 95 percent LTV loan to 67 percent. Deep mortgage insurance would bring it down to, say 50 percent LTV. This could be done on a loan-by-loan basis, making it more attractive for smaller entities. One prerequisite for front-end risk sharing is that the private mortgage insurance counterparties be in a strong enough financial position that Fannie and Freddie are willing to take on additional counterparty risk with these entities. That is, the PMIs are vital to the system; the GSEs are required by charter to have first loss credit enhancement to support mortgages with loan-to-value ratios in excess of 80 percent. Private mortgage insurers have provided the major mechanism by which the GSE’s are able to meet this requirement...The PMIERs rules that were announced in April, 2015, addressed the operational issues and increased the capital requirements for these institutions. The capital requirements are now set such that the PMIs can meet their obligations, even under very adverse market conditions. This should pave the way for front end risk sharing using deep MI.”

Laurie S. Goodman
Director, Housing Finance Policy Center The Urban Institute
May 14, 2015

“[H]ousing finance is being driven by administrative actions at the Federal Housing Finance Agency (FHFA), sometimes using Fannie Mae and Freddie Mac as the vehicle…Senate Banking Chairman Richard Shelby followed this strategy in his ‘Financial Regulatory Improvement Act of 2015.’ The bill, which passed out of the Banking Committee, undertakes minor reforms that do not interfere with the overall objective…it pushes the GSEs to undertake additional risk sharing — which must rise by 50 percent per year — some of which must be “front-loaded.” This is focused on pushing FHFA and the GSEs to more creatively use private capital as the backstop for mortgages; not the taxpayer. Comprehensive housing reform remains an unfulfilled quest. But sensible steps can be taken along the path.”

Doug Holtz-Eakin
President, American Action Forum
May 26, 2015