Housing Reform Outline

<u>Guarantors</u>

a. Guarantors will be private companies.
b. The primary business of guarantors will be to guarantee the timely repayment of principal and interest to investors of eligible mortgages that are securitized through a securitization platform operated by Ginnie Mae.
    i. Guarantors will be permitted to (i) provide guarantees on eligible mortgages that are securitized by primary market participants or issuers; and (ii) buy eligible mortgages from the primary market through a cash window and guarantee and securitize them through a securitization platform operated by Ginnie Mae.
    ii. Guarantors will be able to hold mortgages in portfolio only to the extent that such portfolio holdings are incidental to the business of securitizing and guaranteeing mortgage backed securities.
c. No guarantor will be able to guarantee more than [XX] percent of all outstanding guaranteed eligible mortgages.
d. Fannie Mae and Freddie Mac will be private guarantors.
    i. The multifamily businesses of Fannie Mae and Freddie Mac will be sold and operated as independent guarantors.
e. Insured depository institutions will not be permitted to be guarantors.
f. Guarantors will not be permitted to offer volume-based discounts on the guarantee fee or other terms.
g. Guarantors will be required to maintain (i) a minimum statutorily required capital ratio of [XX] percent to total assets (including asset equivalents of any off-balance sheet exposures); and (ii) additional capital requirements established by the Federal Housing Finance Agency (FHFA).
    i. In addition, FHFA will be permitted to require guarantors to engage in approved credit risk transfers (CRT). FHFA may take the quantity and quality of CRT into account when setting capital requirements for a guarantor, but every guarantor will be required to remain above the statutory minimum leverage ratio.
h. Credit box: In order to qualify as an "eligible mortgage" (*i.e.*, a mortgage that a guarantor can buy, securitize, and/or guarantee) (i) the borrower must provide a down payment of at least [XX] percent; (ii) the outstanding principal balance will not be able to exceed 80 percent of the value of the property unless the borrower has private mortgage insurance as currently required by GSEs; (iii) the loan will be required to meet requirements that are substantially similar (as determined by FHFA by regulation) to the Qualified Mortgage requirements; and (iv) the value of the mortgage will not be permitted to exceed loan limits set by FHFA.

Regulation of Guarantors

a. FHFA's structure will be changed so that it is run by a bi-partisan board of directors instead of a single Director.
b. FHFA will charter, regulate, and supervise guarantors.
c. FHFA will be required to establish prudential standards that include (i) leverage requirements in addition to statutorily required leverage requirements; (ii) risk-based capital requirements (if appropriate); (iii) liquidity requirements; (iv) overall risk management requirements; (v) resolution plan requirements; (vi) concentration limits; and (vii) stress tests.
d. FHFA will be permitted to establish standards of approval for CRT structures. Guarantors may only use CRT structures approved by FHFA.
e. FHFA will maintain existing resolution authorities to resolve an insolvent guarantor. Guarantors will be allowed to fail.
f. FHFA will have authority to require a guarantor to divest certain assets or operations if (i) FHFA determines that a guarantor guarantees more than [XX] percent of all outstanding guaranteed mortgages; or (ii) the guarantor constitutes a grave threat to the financial safety, soundness, or stability of the U.S. financial system.
g. FHFA will be required to approve guarantors' pricing.

Ginnie Mae

a. Ginnie Mae will guarantee timely repayment of principal and interest on securities that receive credit enhancement from guarantors that are approved and regulated by FHFA.
b. Ginnie Mae will operate a securitization platform.
c. Ginnie Mae will provide a catastrophic government guarantee at the security-level to cover tail-end risk, backed by the full-faith and credit of the United States.
d. Ginnie Mae will operate a mortgage insurance fund (MIF) with a reserve ratio of [XX] percent of total amount of outstanding securities guaranteed by Ginnie Mae. The MIF will be funded through insurance premiums paid by guarantors.
e. If the MIF is depleted and draws on Treasury, guarantors would be charged higher insurance premiums to pay back taxpayers and rebuild the MIF reserves to the required reserve ratio.

Transition

a. No guarantor will be permitted to have more than [XX] percent of all outstanding guaranteed eligible mortgages within [XX] years after enactment of the legislation.
b. All guarantors will be required to be fully capitalized within [XX] years after enactment of the legislation.
c. Technology and infrastructure being developed as part of the Common Securitization Platform may be sold or transferred to Ginnie Mae.
d. FHFA, with the consent of Treasury, will have the authority to postpone deadlines if FHFA submits a report to Congress, and the Chair of FHFA and the Secretary of Treasury both agree and testify before Congress as to why a delay is necessary.

Affordable Housing

a. Current affordable housing goals and duty-to-serve requirements will be replaced with a new Market Access Fund, which will provide grants, loans, and credit enhancement to address the homeownership and rental housing needs in underserved and low-income communities.
b. The Housing Trust Fund, Capital Magnet Fund, and Market Access Fund will collectively be funded through an annual assessment of 10.0 basis points of the total annual loan volume guaranteed by each guarantor.