

HOUSING OPPORTUNITIES MOVE THE ECONOMY (HOME) FORWARD ACT OF 2014

BACKGROUND

The discussion draft released by Financial Services Committee Ranking Member Waters – entitled the “Housing Opportunities Move the Economy (HOME) Forward Act of 2014” – integrates the [“Democratic Principles for Housing Finance Reform”](#) released by Committee Democrats in July 2013, and responds to feedback from the extensive listening sessions, [forums](#) and meetings with industry, advocates, regulators and academicians hosted by the Ranking Member over the past year.

The HOME Forward Act builds upon the work of Chairman Johnson and Ranking Member Crapo, Senators Corker and Warner, and input from outside stakeholders, including white papers from the [Federal Reserve Bank of New York](#) and the [Center for Responsible Lending](#), to create a housing finance system that will provide affordable access to credit while also ensuring the protection of American taxpayers.

The Act also incorporates Congresswoman Carolyn Maloney’s “Multifamily Housing Finance Reform Act of 2014” to preserve Fannie Mae and Freddie Mac’s multifamily business activities, which have served both the market and taxpayers well even during the worst of the recent financial crisis.

BRIEF SUMMARY

The HOME Forward Act of 2014 seeks to remove the perverse incentives and poor single-family business practices that caused the GSEs to be placed into conservatorship in 2008, while maintaining the aspects of our housing finance system that have worked well for generations.

The Act establishes a new lender-owned Mortgage Securities Cooperative (MSC) that will be the only issuer of government-guaranteed securities, governed on a one-member, one-vote basis, and capitalized by lenders based on mortgage volume. This structure will replace Fannie Mae and Freddie Mac, which will be wound-down over a 5-year period. The mutualized ownership structure of the MSC will better align risk and incentives across private members, and provides a preferable alternative to Fannie Mae and Freddie Mac’s pre-conservatorship public shareholder structure.

In short, this new structure will eliminate what went wrong at Fannie Mae and Freddie Mac while preserving what worked well at the enterprises. Specifically, the Act seeks to:

- **Maintain the affordable 30-year fixed rate mortgage** by providing for a catastrophic government guarantee on eligible single-family mortgages. The Act makes the government guarantee on eligible securities explicit and paid-for with a fee, which will be used to capitalize a Mortgage Insurance Fund (MIF) overseen by a new regulator, the National Mortgage Finance Administration (NMFA). Capital in the MSC, as well as private credit risk-sharing on guaranteed securities, will hold a first-loss position, with the MIF providing a catastrophic guarantee.
- **Protect taxpayers from the costs of a housing downturn** by establishing a strong new regulator known as the NMFA, which will oversee the new lender-owned MSC. The NMFA will

have authority over underwriting standards, as well as oversight responsibilities over third-party vendors and counterparties to the MSC. Further, the NMFA will oversee the MIF, modeled after the Deposit Insurance Fund managed by the FDIC, which will only be triggered in the event of private first-loss capital and capital of the MSC being exhausted. The new issuer will no longer operate as a hedge fund with a leveraged portfolio, but instead with very limited authority to provide a “cash window” to small financial institutions, aggregate loans from the smallest lenders into multi-lender securities, and work out troubled loans.

- **Ensure that small and community financial institutions can participate in the new system.** The strength of our financial system depends on creating an environment where a diverse set of institutions can thrive, regardless of size. For that reason, the Act provides for strong representation of small financial institutions in terms of governance of the MSC and also provides for a “cash window” to which small institutions can sell individual mortgages.
- **Provide stability and liquidity in our housing finance system** by providing that the NMFA set prudent underwriting standards, adequate capital levels for the MSC, and provide for first-loss credit risk sharing on mortgages. In order to ensure access to mortgage credit during all periods of the economic cycle, the Act provides flexibility to the NMFA to adjust standards during exigent market conditions.
- **Prevent disruptions to the U.S. housing market during a transition to a new finance system.** The Act provides for a 5-year transition period to the new system, and creates a framework to simultaneously build-up the MSC while winding-down Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac’s portfolios will continue to wind down at the current rate, and the Treasury will explicitly guarantee all outstanding enterprise securities.
- **Provide transparency and standardization** across the market, through uniform pooling and servicing agreements, as well as with new databases to facilitate access to mortgage data. The Act also builds-upon the current work being done to create a Common Securitization Platform.
- **Maintain access for all qualified borrowers that can sustain homeownership and to serve homeowners of the future** by providing for strong underwriting standards, which also provide flexibility on downpayments for first-time homebuyers. Moreover, the Act provides that the new MSC has a responsibility to ensure broad market access.
- **Maintain the multifamily housing market** by largely transferring what has worked at Fannie Mae and Freddie Mac to a new Multifamily Platform at the MSC. Building off of the work of Congresswoman Carolyn Maloney, the Act seeks to preserve both Fannie Mae and Freddie Mac’s forms of risk sharing on securities backed by multifamily mortgages.
- **Ensure access to affordable rental housing by funding the Housing Trust Fund, Capital Magnet Fund, and the new Market Access Fund.** The Act provides for robust funding for the Housing Trust and the Capital Magnet Funds created under the Housing and Economic Recovery Act of 2008, and creates a new Market Access Fund to support innovation in housing and housing finance. Further, the Act provides that the Housing Trust and Capital Magnet Funds are included in the distribution of earnings when Fannie Mae and Freddie Mac are liquidated.