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**OBAMA ADMINISTRATION PLAN PROVIDES PATH FORWARD FOR
REFORMING AMERICA’S HOUSING FINANCE MARKET, WINDING
DOWN FANNIE MAE AND FREDDIE MAC**

*Reforms Will Shrink the Government’s Footprint in Housing Finance on a Responsible Timeline,
Help Protect Taxpayers*

*Plan Includes Critical Measures to Help Fix the Fundamental Flaws in the Mortgage Market,
Better Target Government’s Support for Affordable Housing*

WASHINGTON – Today, the Obama Administration delivered a report to Congress that provides a path forward for reforming America’s housing finance market. The Administration’s plan will wind down Fannie Mae and Freddie Mac and shrink the government’s current footprint in housing finance on a responsible timeline. The plan also lays out reforms to continue fixing the fundamental flaws in the mortgage market through stronger consumer protection, increased transparency for investors, improved underwriting standards, and other critical measures. Additionally, it will help provide targeted and transparent support to creditworthy but underserved families that want to own their own home, as well as affordable rental options.

“This is a plan for fundamental reform – to wind down the GSEs, strengthen consumer protection, and preserve access to affordable housing for people who need it,” said Treasury Secretary Tim Geithner. “We are going to start the process of reform now, but we are going to do it responsibly and carefully so that we support the recovery and the process of repair of the housing market.”

“This report provides a strong plan to fix the fundamental flaws in the mortgage market and better target the government’s support for affordable homeownership and rental housing,” said Housing and Urban Development Secretary Shaun Donovan. “We must continue to take the necessary steps to ensure that Americans have access to quality housing they can afford. This involves rebalancing our housing priorities to support a range of affordable options, from

promoting much-needed financing for quality, affordable rental homes to ensuring the availability of safe, and sustainable mortgage products for current and future homeowners.”

The Obama Administration's reform plan will:

1. Wind Down Fannie Mae and Freddie Mac and Help Bring Private Capital Back to the Market. In the wake of the financial crisis, private capital retreated from the housing market and has not yet returned, leaving the government to guarantee more than nine out of every 10 new mortgages. That assistance has been essential to stabilizing the housing market. However, the Obama Administration believes that, under normal market conditions, the private sector – subject to stronger oversight and standards for consumer and investor protection – should be the primary source of mortgage credit and bear the burden for losses.

The report recommends using a combination of policy levers to wind down Fannie Mae and Freddie Mac, shrink the government’s footprint in housing finance, and help bring private capital back to the mortgage market. The Obama Administration is committed to proceeding with great care as we work toward the objective of ensuring that government support is withdrawn at a responsible pace that does not undermine the economic recovery.

□ **Phasing in Increased Pricing at Fannie Mae and Freddie Mac to Make Room for Private Capital, Level the Playing Field.** The Administration recommends ending unfair capital advantages that Fannie Mae and Freddie Mac previously enjoyed by requiring them to price their guarantees as though they were held to the same capital standards as private banks or financial institutions. This will help level the playing field for the private sector to take back market share. Although the pace of these increases will depend significantly on market conditions, the Administration recommends bringing Fannie Mae and Freddie Mac to a level even with the private market over the next several years.

□ **Reducing Conforming Loan Limits.** To further reduce Fannie Mae and Freddie Mac’s presence in the market, the Administration recommends that Congress allow the temporary increase in those firms’ conforming loan limits (the maximum size of a loan those firms can guarantee) to reset as scheduled on October 1, 2011 to the levels set in the Housing and Economic Recovery Act (HERA). We will work with Congress on additional changes to conforming limits going forward.

□ **Phasing in 10 Percent Down Payment Requirement:** To help further protect taxpayers, we recommend requiring larger down payments from borrowers. Going forward, we support gradually increasing required down payments so that any mortgage that Fannie Mae and Freddie Mac guarantee eventually has at least a 10 percent down payment.

□ **Winding Down Fannie Mae and Freddie Mac’s Investment Portfolios:** The Administration’s plan calls for continuing to wind down Fannie Mae and Freddie Mac’s investment portfolio at an annual rate of no less than 10 percent per year.

□ **Returning Federal Housing Administration (FHA) to its Traditional Role.** As Fannie Mae and Freddie Mac's presence in the market shrinks, we will encourage program changes at FHA to ensure that the private sector – not FHA – picks up this new market share. The Administration recommends that Congress allow the present increase in FHA conforming loan limits to expire as scheduled on October 1, 2011, after which it will explore further reductions. The Administration will also put in place a 25 basis point increase in the price of FHA's annual mortgage insurance premium, as detailed in the President's 2012 Budget.

Throughout the transition, we remain committed to ensuring that Fannie Mae and Freddie Mac have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations. This assurance is essential to continued economic stability.

We recognize the critically important role that Fannie Mae and Freddie Mac and their employees have played in the housing finance market while they have operated in conservatorship. We look forward to continuing to work with them to find ways to develop and implement the longer term reform solutions that the Administration determines together with Congress.

2. *Fix the Fundamental Flaws in the Mortgage Market.* The Obama Administration is committed to fixing the fundamental flaws in the housing finance chain. That process is already underway as we move to fundamentally transform the mortgage market through the Dodd-Frank Wall Street Reform and Consumer Protection Act's (Dodd-Frank Act's) critical reforms. Implementing these key measures, as well as additional reforms outlined in this report, will help to strengthen the long-term health of the mortgage market for borrowers, lenders, and investors.

□ **Helping Consumers Avoid Unfair Practices and Make Informed Decisions About Mortgages:** The Administration will continue to implement the Dodd-Frank Act's reforms to strengthen anti-predatory lending protections, improve underwriting standards, require lenders to verify a borrower's ability to pay, and provide increased mortgage disclosures for consumers.

□ **Increasing Accountability and Transparency in the Securitization Process:** The Administration is currently working on rules to require originators and securitizers to keep greater "skin in the game" and to align incentives across the securitization chain. Dodd-Frank charged the SEC with setting stricter disclosure requirements so that investors can more easily understand the underlying risks of securities, and establishing an Office of Credit Ratings to more effectively regulate the credit rating agencies.

□ **Creating a More Stable Mortgage Market:** The Administration supports stronger capital standards to help ensure that banks can better withstand future downturns, declines in home prices and other sudden shocks, without jeopardizing the health of the

economy. Additionally, the comprehensive reforms undertaken pursuant to the Dodd-Frank Act to constrain excessive risk in the financial system, including strengthened and coordinated oversight through the Financial Stability Oversight Council (FSOC), will help build a healthier and more stable mortgage market for the long term.

□ **Servicing and Foreclosure Processes:** The Administration supports several immediate and near-term reforms to correct problems in mortgage servicing and foreclosure processing to better serve both homeowners and investors. These include putting in place national standards for mortgage servicing; reforming servicing compensation to help ensure servicers have proper incentives to invest the time and effort necessary to work with borrowers to avoid default or foreclosure; requiring that mortgage documents disclose the presence of second liens and define the process for modifying a second lien in the event the first lien becomes delinquent; and considering options for allowing primary mortgage holders to restrict, in certain circumstances, additional debt secured by the same property.

□ **Forming a New Task Force on Coordinating and Consolidating Existing Housing Finance Agencies:** Following on the President's call in the State of the Union to reform government to build a stronger future, the Administration will create a task force to explore ways in which the Department of Housing and Urban Development, the Department of Agriculture, and the Department of Veterans' Affairs housing finance programs can be better coordinated, or even consolidated.

3. *Better Target the Government's Support for Affordable Housing.* The Administration believes that we must continue to help ensure that Americans have access to quality housing they can afford. This does not mean, however, that our goal is for all Americans to become homeowners. Instead, we should make sure opportunities are available for all Americans who have the credit history, financial capacity, and desire to own a home have the opportunity to take that step. At the same time, we should ensure that there are a range of affordable options for the millions of Americans who rent, whether they do so by choice or financial necessity. Moving forward, we must design access and affordability policies that are better targeted and focused on providing support that is financially sustainable for families and communities. The Administration recommends initially focusing our efforts on four primary areas:

□ **Reforming and Strengthening the FHA:** We will continue to ensure that creditworthy borrowers who have incomes up to the median level for their area have access to affordable mortgages, but we will do so in a way that is healthy for FHA's long-term finances, including considering options such as lowering the maximum loan-to-value ratios for qualifying mortgages and adjusting pricing.

□ **Rebalancing our Housing policy and Strengthening Support for Affordable Rental Housing:** The plan advocates additional support for rental housing through measures that could include expanding the FHA's capacity to support lending to the multifamily market,

with reforms like risk sharing with private lenders and dedicated programs for hard to reach property segments like smaller properties.

□ **Ensuring that Capital is Available to Credit-worthy Borrowers in All Communities, Including Rural Areas, Economically Distressed Regions, and Low-income Communities:** The plan calls for greater transparency by requiring securitizers to disclose information on the credit, geographic, and demographic characteristics of the loans they package into securities. The Administration will explore other measures to make sure that secondary market participants are providing capital to all communities in ways that reflect activity in the private market, consistent with their obligations of safety and soundness.

□ **Supporting a Dedicated Funding Source for Targeted Access and Affordability Initiatives:** The plan calls for a dedicated, budget neutral, financing mechanism to support homeownership and rental housing objectives. The Administration will work with Congress on developing this funding mechanism going forward.

4. *Longer-Term Reform Choices.* The report also puts forward longer-term reform choices for structuring the government's future role in the housing market. Each of these options would produce a market where the private sector plays the dominant role in providing mortgage credit and bears the burden for losses, but each also has unique advantages and disadvantages that we must consider carefully.

Deciding the best way forward will require an honest discussion with Congress and other stakeholders about the appropriate role of government over the longer term. The Obama Administration looks forward to working to build consensus, on a bipartisan basis, with a wide range of stakeholders on this issue.

To read the Obama Administration's report on the future of housing finance, please visit, [link](#).

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