



2019 CAPITAL SUMMIT

HOUSING FINANCE AND FLOOD INSURANCE REFORM

COMMUNITY BANKS AND THE MORTGAGE MARKET

For decades, American homeowners have benefited from the critical role Fannie Mae and Freddie Mac (the government sponsored enterprises or “GSEs”) have played in helping finance homeownership. The GSEs have provided a steady, reliable source of funding for home mortgage lending through all economic cycles and in all markets.

Community banks depend on the GSEs for direct access to the secondary market without having to sell their loans through a larger financial institution that competes with them. The GSEs allow community banks to retain the servicing on the loans they sell, which helps keep delinquencies and foreclosures low. And unlike other private investors or aggregators, the GSEs have a mandate to serve all markets at all times.

ICBA SUPPORTS A TWO-PRONGED APPROACH TO HOUSING FINANCE REFORM

As described below, effective housing finance reform must be comprehensive and encompass both (i) administrative reforms, using authorities granted to the Federal Housing Finance Administration (FHFA) by the Housing and Economic Recovery Act (HERA), and (ii) legislative reforms designed to preserve what’s working well and make targeted changes to aspects of the current system that are not working or that put taxpayers at risk.

LEGISLATIVE REFORMS

- Legislation should create an explicit government guaranty on GSE mortgage backed securities. For the market to remain deep and liquid, government catastrophic-loss protection must be explicit and paid for through the GSE guaranty fees, at market rates. This guarantee is needed to provide credit assurances to investors, sustaining robust liquidity even during periods of market stress.
- To reduce systemic risk, Congress should permanently cap the GSEs’ retained portfolios. Highly leveraged retained portfolios drove high quarterly earnings and took the GSEs’ focus off their core mission.
- Legislation must permanently eliminate preferential pricing/loan sale terms for lenders based on production volume/market share. These policies favor the largest lenders and promote consolidation which harms borrowers.





- The FHFA's governance structure should be converted from a single director to a five-member board. This change would bring a diversity of views to the FHFA and create a system of checks and balances that would strengthen rulemaking.
- Congress should change the GSE corporate charters from the current government-chartered, shareholder-owned, publicly traded companies, to regulated financial utilities that are shareholder owned. This change would help the GSEs stay focused on their mission and provide regulated returns to shareholders.

ADMINISTRATIVE REFORMS

- The FHFA must end the quarterly net worth sweep of Fannie and Freddie net income to the Treasury so that they can begin to retain earnings to rebuild capital.
- FHFA should direct the GSEs to develop and file capital restoration plans, as required by HERA, to provide a road map for the industry, taxpayers, and policy makers. The plans must detail the GSEs' capital activities, milestones, and timeframe to achieve desired capital levels and specify the steps FHFA will take to approve the GSEs' eventual exit from conservatorship. These plans are critical for all stakeholders to ensure the process is transparent, with robust oversight by FHFA. Recapitalization cannot wait for legislative reform to occur.
- GSE shareholder rights must be upheld. Any reform of the housing finance system must address the claims of GSE shareholders and respect the rule of law that governs the rights of corporate shareholders.

FLOOD INSURANCE MUST BE AFFORDABLE AND READILY AVAILABLE

Affordable and readily available flood insurance is vital for many communities, along the coasts as well as inland rivers, and for those who live and work in areas impacted by disasters. The National Flood Insurance Program (NFIP) expires on May 31, 2019 and must be reauthorized. Congress is considering reforms to place the Program on sound financial footing, ensure that rates and maps are accurate, and provide for mitigation. ICBA generally supports these efforts and will evaluate proposals based on the following criteria:

- There should be a long-term reauthorization of the NFIP in order to have certainty and continuity in the market.
- Coverage must be affordable and reasonably available to all homeowners and business owners.
- Consumers should be allowed to switch to a private market policy and then return to the NFIP without losing their grandfathered status.
- The mandatory purchase requirement for commercial properties should be maintained as it helps community banks compete with regional and national banks for loans in flood zones.

MESSAGE FOR YOUR MEMBERS OF CONGRESS

- Housing finance reform must preserve community bank access and liquidity in the secondary market.
- Support timely, long-term reauthorization of the National Flood Insurance Program.