



**REGULATION AND  
LEGISLATION**

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# For a Long Time Dormant, Housing-Revamp Legislation Springs to Life on Capitol Hill



*By John J. McKechnie*

**H**ousing finance appears to be poised to take center stage on Capitol Hill in early 2018, as Senators have begun work on a bill to revamp the mortgage market, and a key House leader has signaled new willingness to move forward as well.

In early December, Senate Banking Committee Chairman Mike Crapo (R-ID) told reporters that he had created an informal bipartisan working group, headed by Senators Bob Corker (R-TN) and Mark Warner (D-VA), to work on the basic outline of the legislation.

Crapo also confirmed that a 40-page draft proposal to revamp the mortgage market is being circulated among Senate Banking Committee members. This plan discards the start-from-scratch approach to legislation that failed three years ago.

## TERMS OF THE PROPOSAL

According to both Republican and Democratic staff members involved in negotiations, the new proposal would:

- End the Fannie and Freddie conservatorship and reconstitute them as new entities.
- Broaden the securitization market to include more participants, increase transparency of government issued mortgage-backed securities, and encourage the flow of private capital into the system.
- Enable Ginnie Mae to market guarantees on mortgage-backed securities, along lines set forth in last year's DeMarco-Bright GSE reform proposal.
- Create a new FHFA approval process for pricing and returns as a way to reduce high-risk lending.
- Maintain a government guarantee in the event of catastrophic losses. This guarantee would be financed by a fee on mortgages.

Other regulatory changes, such as the common Fannie/Freddie securitization platform already initiated by FHFA, would be codified into law. The plan would also contain provisions that ensure access by credit unions and small banks to the secondary market, although specifics have not been determined.

## NO AGREEMENT ... YET

At year end, the plan remained unfinished. The bipartisan group has yet to agree on several of the components.

The remaining points of contention, according to Senate staff involved in the drafting, include how to fund af-

fordable housing and how to securitize mortgage bonds—both the ones that currently exist, as well as ones that are issued in the future. Also, the structure and operations of the released Fannie Mae and Freddie Mac is still being debated, and could become a major sticking point.

However, these remaining points are minor, according to Corker, who also commented that “the last time we tried this (in 2014), the bill was considered too untested, too complicated. The new system will much more try to build off the existing system and put in protections that make sure the things that went wrong can't happen again.”

Chairman Crapo said in an interview before the end of the year that he wanted to circulate a proposal soon. “I'm hopeful it's going to be weeks, rather than longer, before we at least have something for folks to look at,” he said.

## HENSARLING SEEKS COMPROMISE

Meanwhile, in the House of Representatives, Financial Services Chairman Jeb Hensarling (R-TX) signaled a new willingness to devise a compromise package that would gain bipartisan support in both chambers.

In a Dec. 6 speech to the National Association of Realtors, Hensarling said he is ready for a fresh approach on mortgage reform.

“I don't want a government guarantee, I don't think we need a government affordable housing program, but in surveying the political landscape I know they will exist in any bipartisan effort,” Hensarling said. “At the end of the day, I'm here to make progress. I want to get to the negotiating table with the Senate, and I want to produce a reform that works for

consumers and market participants.”

In 2014, Hensarling's PATH (Protecting American Taxpayers and Homeowners) Act narrowly passed the House Financial Services Committee on a party-line vote, but the measure was never brought to the House floor due to a determination by House leaders that the bill would ultimately divide the Republican caucus.

Now that Hensarling has abandoned his initial approach and indicated that he is open to moving the process toward negotiations on legislation in the coming months, the prospects for housing finance reform in the 115th Congress have improved considerably.

## WHERE ARE WE HEADED?

Observers expect that one of two things will happen in the first few months of 2018.

One scenario is that the full Senate passes the bipartisan bill currently under construction after it secures approval of the Banking Committee, and then sends it to the House for quick action.

Or, the House will develop its own legislation that resembles (but is not identical to) the Senate product, and the two chambers reconcile differences through a conference committee sometime in the first six months of the year.

Either course results in a bill revamping housing finance that lands on President Donald Trump's desk before the end of the 115th Congress. And that's an outcome few would have predicted even a couple of months ago. ▲

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