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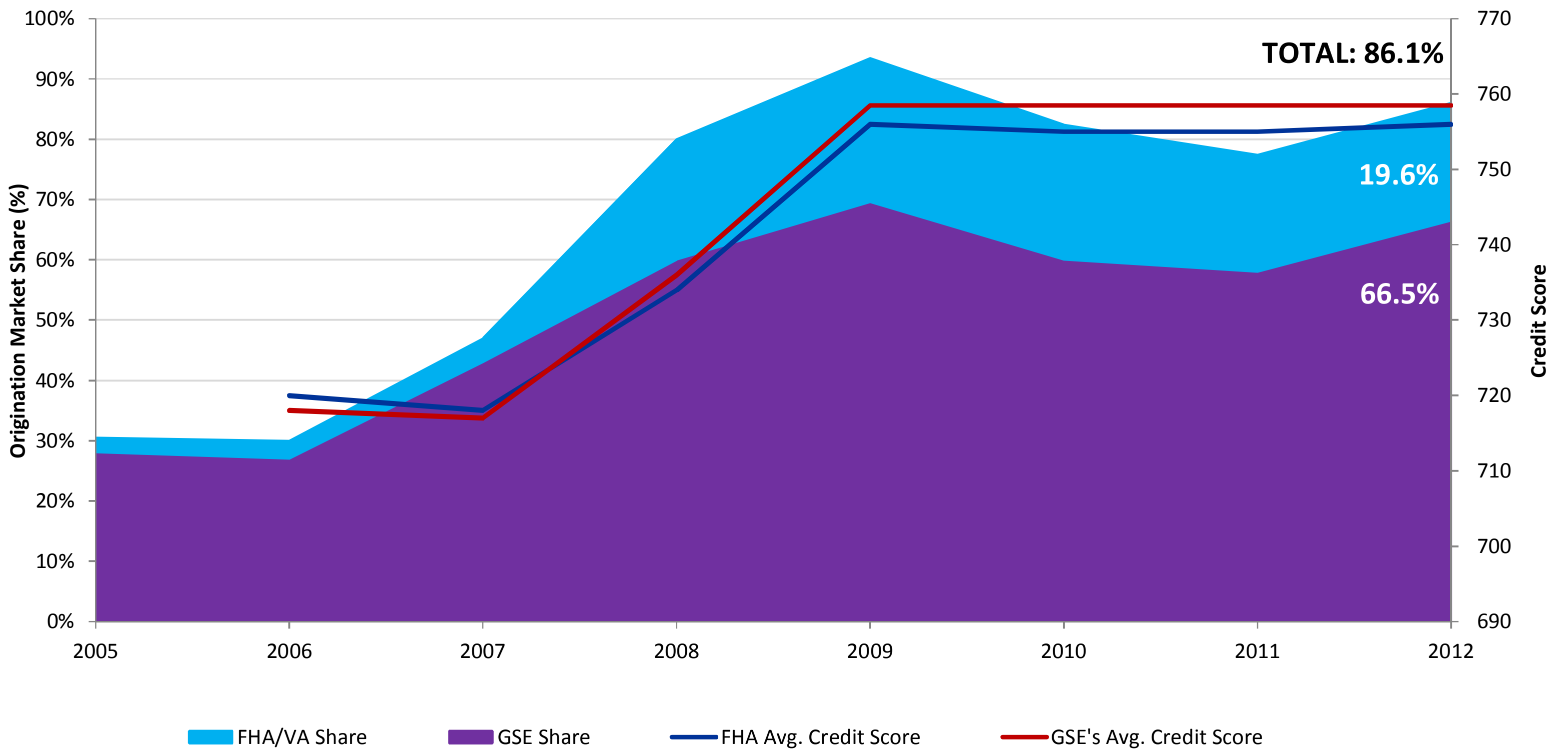
The New Housing Finance System: Are We There Yet?

Federal Reserve Bank of Cleveland 2013 Policy Summit

September 19, 2013

Historical Origination Market Share & Credit Data

Share of Total Single Family Originations (%) and Credit Score



Avg. Credit Score	2005	2006	2007	2008	2009	2010	2011	2012
GSE's	N/A	718	717	736	759	759	759	759
FHA	N/A	720	718	734	756	755	755	756

Sources: : Invesco presentation to Bipartisan Policy Center Housing Commission Forum; Fannie Mae, Freddie Mac and FHA public filings

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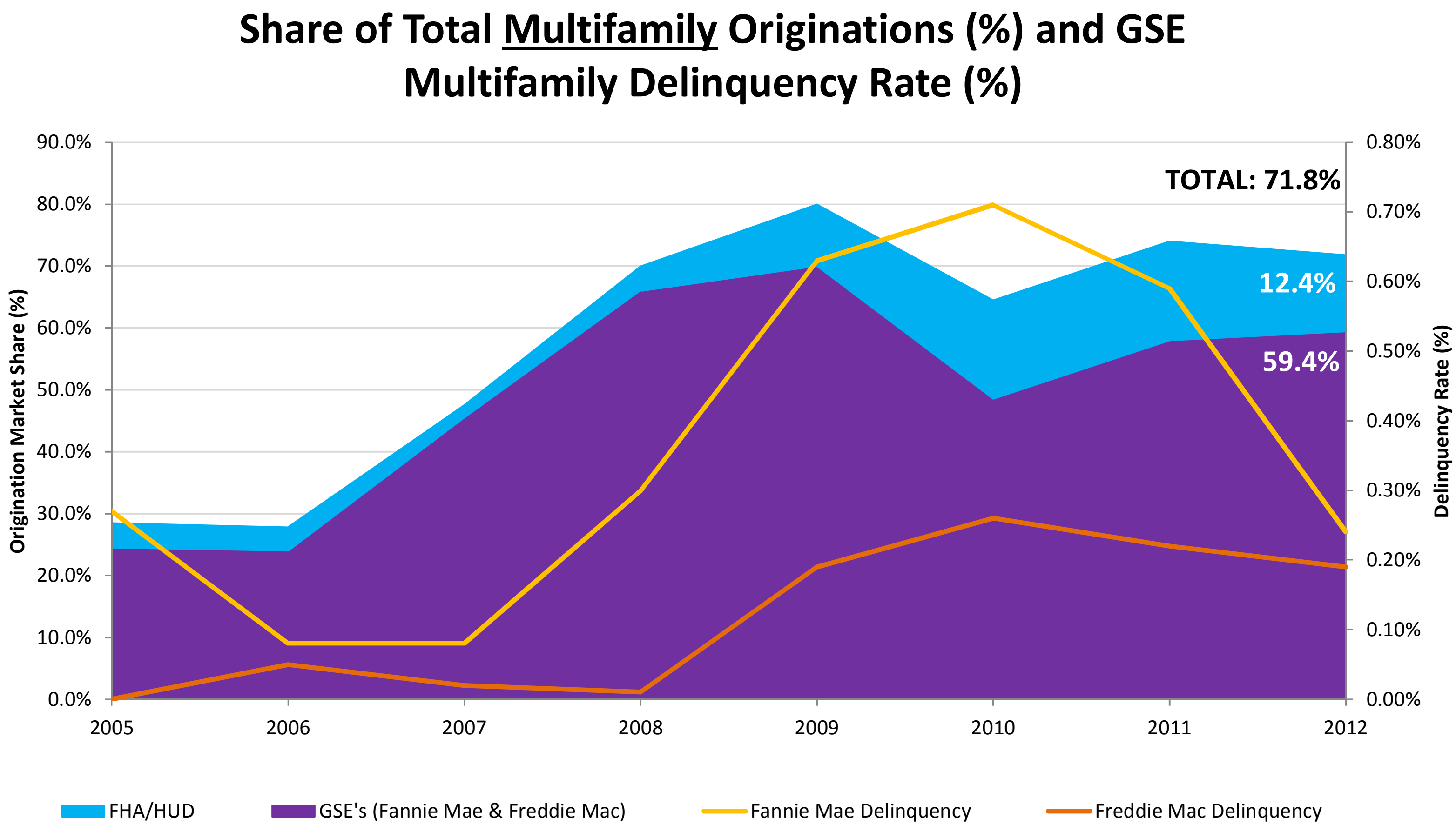
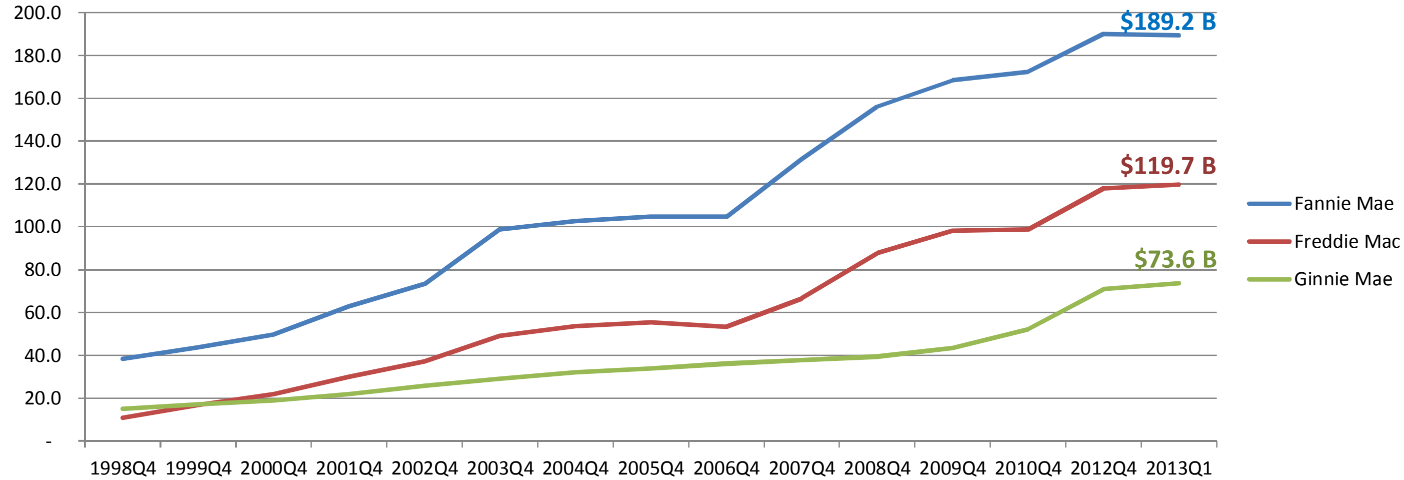


Delinquency Rates	2005	2006	2007	2008	2009	2010	2011	2012
Fannie Mae	0.27%	0.08%	0.08%	0.30%	0.63%	0.71%	0.59%	0.24%
Freddie Mac	0.00%	0.05%	0.02%	0.01%	0.19%	0.26%	0.22%	0.19%

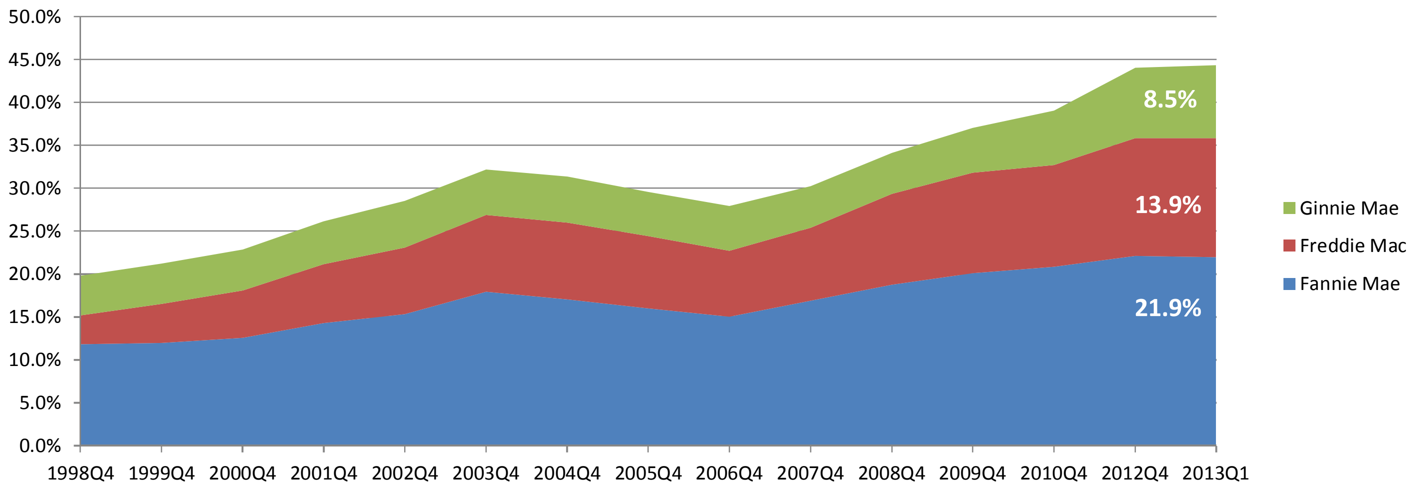
Sources: : Invesco presentation to Bipartisan Policy Center Housing Commission Forum; Fannie Mae, Freddie Mac and FHA public filings

Multifamily Mortgage Debt Outstanding

GSE & FHA Multifamily Mortgage Debt Outstanding ($ billions)



GSE & FHA Multifamily Mortgage Debt Market Share (% of total)



Sources: : Federal Reserve Flow of Funds

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Subject	PATH Act	Corker-Warner
Wind-down of Fannie Mae and Freddie Mac (the GSEs)		
Receivership	The Federal Housing Finance Agency (FHFA) is directed to place the GSEs into receivership 5 years after the date of enactment, but the Director may extend the conservatorship for an additional 2 years based on an increase in the spread between conforming and non-conforming loans.	No similar provision, but as of the date of enactment, the FHFA is directed to begin the wind down of the GSEs and the liquidation of their assets.
Charter Repeal	The PATH Act provides for the repeal of federal charters 5 years after date of enactment. The repeal of the charters will be delayed if the receivership is delayed.	The federal charters of the GSEs are repealed when the Federal Mortgage Insurance Corporation (FMIC) is able to perform the insurance functions authorized in the bill (the FMIC Certification Date). In no event may the repeal take place later than 5 years after the date of enactment.
Treatment of Outstanding GSE Debt and Mortgage Securities During Transition	Rights of Existing Investors The charter repeal would not impair pre-existing rights of investors who hold GSE debt or mortgage backed securities (MBS). Federal Guarantee GSE debt and MBS issued prior to the charter repeal would be fully guaranteed by the federal government.	Same as House bill. Same as House bill.
Federal Regulator		
Federal Regulator	The PATH Act retains FHFA and gives FHFA supervisory authority over a National Mortgage Market Utility (the Utility), which is authorized to set standards for securitization of residential mortgages and operate a securitization platform. The Utility may not own, originate, service, insure or guarantee any residential mortgage or MBS.	The Senate bill replaces FHFA with a new independent federal agency called the Federal Mortgage Insurance Corporation (FMIC). The FMIC must be operational no later than 5 years after the date of enactment.

Sources: : BARNETT SIVON & NATTER, P.C. - Comparison of GSE Reform Provisions in the PATH Act (H.R. 2767) and Corker-Warner (S. 1217)

Subject	PATH Act	Corker-Warner
Structure and Governance	The Utility would be a not-for-profit entity that could take any organizational form (e.g., corporation, partnership, mutual association, limited liability corporation, or cooperative), and would be governed by a board that has at least 10 members (2 with experience in mortgage securitization, 2 from large banks, 2 from small banks, 2 with experience in electronic documentation, and 2 with experience in investing in MBS).	FMIC would be an independent federal agency governed by a 5 member board appointed by the President and confirmed by the Senate; one board member would serve as the Chairperson of the Board and as the Director of the agency.
Mortgage Securities & Other		
Federal Guarantee for MBS	The PATH Act does not provide for any federal guarantee on MBS.	One of the principal duties of the FMIC is to provide a backstop federal guarantee on MBS that meet certain standards (i.e., "Covered Securities").
Eligible Securities	Requires that securities issued through the Platform run by the Utility be "qualified securities", defined as: (1) collateralized by one or more classes of residential mortgages defined by the Utility on the basis of credit risk characteristics (e.g., debt-to-income ratio, loan-to-value ratio, credit history, credit enhancement) and loan terms, including a 30-year fixed rate mortgage; (2) issued in accordance with a standard form securitization agreement established by the Utility; (3) issued by an issuer that meets qualification standards set by the Utility; and (4) issued through the securitization Platform run by the Utility.	A security can qualify as a "covered security" eligible for a federal guarantee if it meets three conditions: (1) security must be backed by "eligible mortgages" that meet Qualified Mortgage standards, do not exceed the conforming loan limit of $417,000, are backed by private mortgage insurance, lender recourse or some other form of credit enhance if the LTV is greater than 80%, have a down payment of no less than 5%, and carry title insurance; (2) the security must have a credit-risk sharing structure under which private investors cover losses consistent with home price declines in recessions; this first loss coverage must not be less than 10% of the value of the security; and (3) the federal backstop guarantee is purchased by an issuer that meets standards set by FMIC.
Trigger for Federal Guarantee	No similar provision.	The federal guarantee is triggered when (1) losses on a covered security exceed the first loss position, or (2) a bond guarantor that has assumed responsibility for the first loss position becomes insolvent.

Sources: : BARNETT SIVON & NATTER, P.C. - Comparison of GSE Reform Provisions in the PATH Act (H.R. 2767) and Corker-Warner (S. 1217)

Subject	PATH Act	Corker-Warner
Funding for Federal Guarantee; Federal Mortgage Insurance Fund	No similar provision.	The Senate bill establishes a Federal Mortgage Insurance Fund to meet the government's obligations under the federal guarantee. This Fund would be financed by uniform guarantee fees paid by the issuers of covered securities and guarantee fees paid in connection with the multi-family business of the GSEs that would be transferred to the FMIC when the GSE charters are repealed. The Fund would be backed by the full faith and credit of the U.S.
Securitization Platform	GSE Platform: No later than 1-year after the establishment of the Utility, the FHFA shall provide for the sale of the securitization platform established by the GSEs to the Utility.	GSE Platform: The bill creates an Office of Securitization within FMIC to oversee and supervise the securitization platform being developed by FHFA and the GSEs.
Mutual Securitization Company	No similar provision.	The FMIC is directed to establish the FMIC Mutual Securitization Company to service credit unions, community and mid-sized banks (up to $15 billion in assets), and non-depository lenders by purchasing whole loans from those institutions and assisting in the securitization of covered securities for those institutions.
Bond Guarantors	No similar provision. No similar provision. No similar provision	Standards: Any entity that meets standards set by FMIC may be approved by FMIC to act as a bond guarantor for the first loss position on a covered security. Bond guarantors must maintain a minimum capital level of no less than 10% of unpaid principal balance of outstanding MBS for which the guarantor is providing insurance, net of hedging that reduces credit risk. Affiliate of a Bank: A separately capitalized subsidiary or affiliate of a bank may act as a bond guarantor. Issuer: A bond guarantor also may be an issuer.
Affordable Housing	No similar provision.	Issuers of covered securities are required to pay a fee of 5-10 basis points for each dollar of the outstanding principal balance of eligible mortgages collateralizing covered securities that carry a federal guarantee. 80% of this fee is to be transferred to the Housing Trust Fund managed by HUD, and 20% to the Capital Magnet Fund managed by Treasury.
Multifamily Business	No similar provision.	When the FMIC becomes operational, all of the multifamily guarantee business conducted by the GSEs is to be transferred, without cost, to the FMIC, and this business shall be supported by the full faith/credit of the U.S.

Sources: : BARNETT SIVON & NATTER, P.C. - Comparison of GSE Reform Provisions in the PATH Act (H.R. 2767) and Corker-Warner (S. 1217)