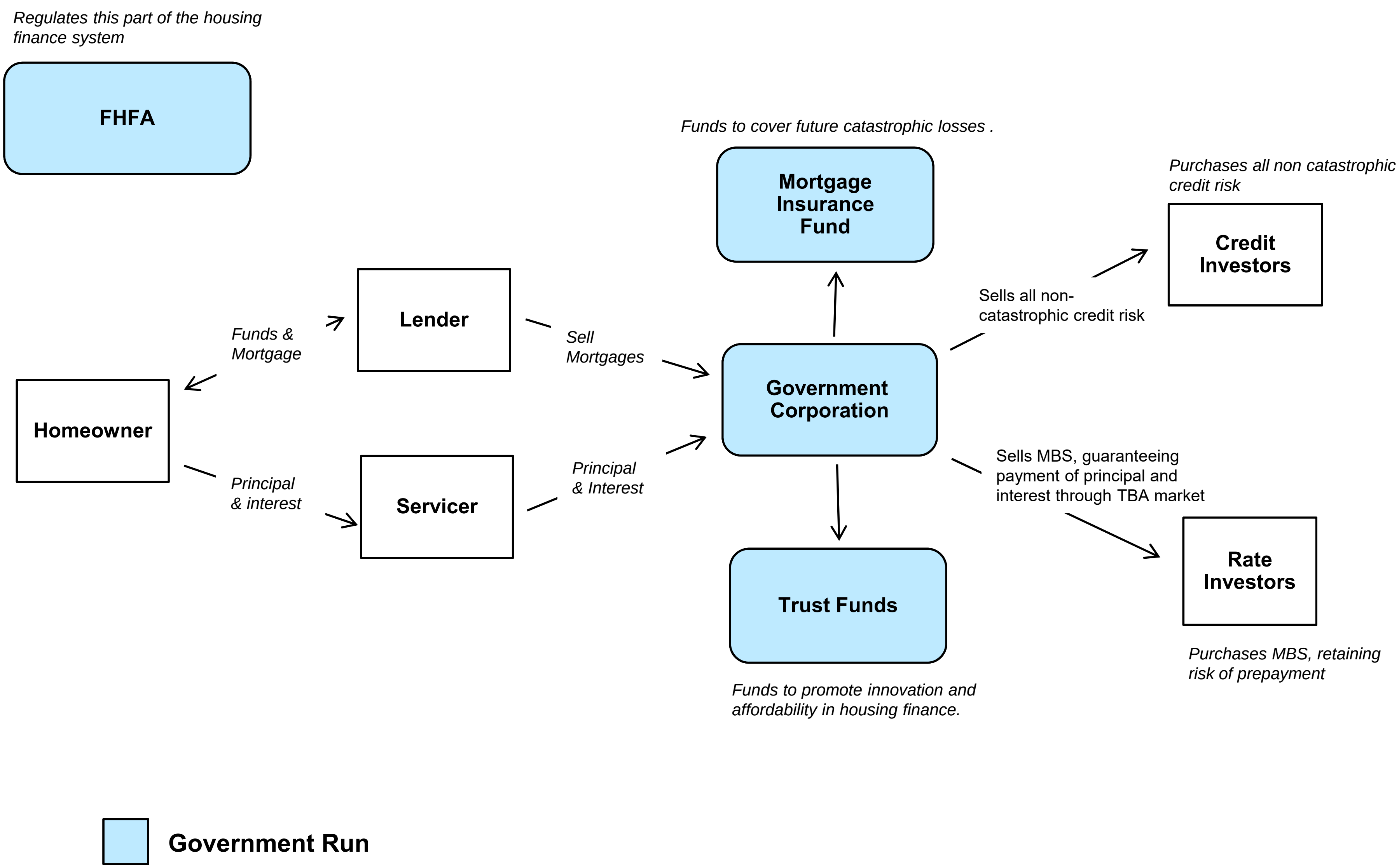
GSE Reform Proposal from Jim Parrott, Lewis Ranieri, Gene Sperling, Mark Zandi, and Barry Zigas

http://www.urban.org/research/publication/more-promising-road-gse-reform

More Promising Road to Reform: Government Corporation



Private institutions and investors

- Mortgage origination. Private mortgage lenders make loans to borrowers in the primary mortgage market.

- Mortgage servicing. Private mortgage servicers collect the interest and principal paid by borrowers and ensure that mortgage security investors receive timely payments.

- Bearing interest rate risk. Private mortgage-backed securities investors bear the risk that borrowers pay off their mortgages before maturity, thereby terminating their interest and principal to investors early and reducing investors’ expected return.

- Bearing non-catastrophic credit risk. Private credit risk investors bear the risk of borrowers defaulting on their mortgage loans at a rate consistent with any level of market stress short of an economic crisis.

Government corporation, the National Mortgage Reinsurance Corporation, or NMRC

- Bearing catastrophic credit risk. The NMRC bears the incremental risk of mortgage borrowers defaulting at a rate consistent with an economic crisis.

- Mortgage securitization. The NMRC purchases loans from mortgage lenders, bundles the loans into pools, securitizes the pools, and sells mortgage securities with the government's guarantee against credit risk to private investors in the secondary mortgage market. This function takes place through a common securitization platform.

- Fulfilling the public policy mission. The NMRC ensures that broad access to sustainable mortgage credit for creditworthy borrowers is available in all communities in all economic conditions; provides equal access to the secondary market for lenders of all sizes; and minimizes taxpayer risk.

These functions are performed by a corporation, not an agency.

FHFA retains its functions.

Evaluation

- Replaces too big to fail with genuine competition
- Broad access for underserved communities and small lenders
- Lower borrower cost
- Flexibility in a stressed secondary market
- Less disruptive transition
- Only as large as it needs to be

POTENTIAL COSTS

- Competition
- Budgetary implications
- Too much government
- Too much private capital

POSSIBLE ADDITIONS

- Countercyclical capital
- Skin in the game
- Integrating government-backed mortgage lending