Minority Views on H.R. 2767

The bill passed by the majority of Republicans in Committee ends the 30-year fixed rate mortgage as an affordable option for the vast majority of American borrowers, leaving those borrowers subject to short-term, variable interest rate mortgages that will lack the stability and predictability of the 30-year fixed rate mortgage. That, of course, assumes borrowers can even get a mortgage. As more than one witness testified, in times of market turmoil or even a mild recession, the private capital on which the bill relies is likely to disappear unless there is a government guarantee. Without such a guarantee, American homebuyers will not have access to reasonably priced mortgages or any mortgages at all.

The removal of the government guarantee from the secondary market in mortgage-backed securities – with nothing to replace it – would not only end the affordable 30-year fixed rate mortgage, but would have negative impacts on the middle class, community banks and credit unions, and the housing market.

Democrats recognize that the previous structure of the housing finance market failed, in large part because of the conflicts created by shareholder-driven enterprises that paid more attention to earnings than to financial soundness. Democrats want to unwind Fannie Mae and Freddie Mac and replace them with a sounder system, one which the government supports with an adequately priced guarantee. But rather than reform the markets, this Republican bill replaces the enterprises with a less-regulated private market that places even more risk on borrowers.

The bill rolls back important consumer protections, allowing unscrupulous lenders back into the market. The bill will also seriously damage, if not destroy, the "to-be-announced" market for enterprise securities, which enables lenders to price mortgages before they are introduced and allows borrowers to lock-in an interest rate before their loan closes.

As the Republican bill makes home ownership unavailable to all but a few Americans, the bill will also significantly increase the cost of rental housing. The bill eliminates financing options for affordable multifamily projects, as well as the National Affordable Housing Trust Fund, which was created to support housing for very low- and extremely low-income families

Notably, the very private market participants that the bill relies upon overwhelmingly disagree with the Republican approach. A broad coalition of groups representing the views of consumers, community banks, credit unions, housing builders, real estate professionals, fair lending experts, economists, and academics have all come together, proposing various ways to rebuild America's housing finance system. All of these proposed solutions include a government guarantee that is adequately paid for. The Republicans on this Committee have ignored these ideas.

Moreover, we believe the Federal Housing Administration (FHA) must continue to play its critical role as part of the nation's housing finance system. The bill that Republicans put forward will drastically shrink that role and the FHA and severely limit available credit to qualified homebuyers. The reduction of the FHA's guarantee from 100 percent to 50 percent would force lenders to take on greater risk, raise prices for borrowers and cause lenders to limit the borrowers they serve. In addition, the changes to FHA coverage will require Ginnie Mae, the securitizer, to account for new counterparty risk, likely hindering access to community banks and credit unions.

This bill not only limits the class of borrowers who would be eligible for FHA insurance by creating a new public purpose, but it also makes it unaffordable for the few who can qualify. While Democrats are supportive of reforms to address FHA's solvency, this bill ignores previous bipartisan efforts and does nothing to ensure that FHA can continue to serve underserved borrowers on strong financial footing.

Additionally, this bill creates a "covered bond" program with inadequate protections for taxpayers. Ironically, while the Republicans claim to eliminate government guarantees, they would create a new implicit guarantee by protecting covered bond investors with government deposit insurance, and not require these investors to pay for the guarantee. The FDIC will no longer be permitted to repudiate the secured bond when a bank fails, providing covered bond investors with a level of protection that no other private secured lender receives under American law. Doing so will also increase the likelihood that community banks will pay higher insurance premiums when an institution that had issued covered bonds fails.

Transferring an implied guarantee from the enterprises to the covered bond market is not the answer to stability in our housing markets, Nor is rendering the FHA unstable by significant restrictions on its borrowers and lenders. Mark Zandi, a noted economist who has been actively involved in housing finance market issues, accurately summarized the bill as follows:

The housing finance system [H.R. 2767, the PATH Act] envisages is largely privatized, providing no government backstop under any economic circumstances. The result will be measurably higher mortgage rates, the marginalization of the 30-year fixed-rate mortgage loan, and a less stable housing market. Larger lenders will likely grow larger in the PATH, and disadvantaged households will have less access to affordable housing.

Democrats are committed to preserving the 30-year fixed rate mortgage and supporting affordable rental housing. We only hope that that Republicans will reconsider their approach before taking this bill to the floor. Members of the Senate have been working in a serious and bi-partisan manner to come up with a new structure for the nation's housing finance system. The Republican bill denies the House an opportunity to do the same.

Minority Views – H.R. 2767

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