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## COMMITTEE ON FINANCIAL SERVICES



### GOALS AND PRINCIPLES FOR GSE REFORM

March 19, 2010

#### Goals

- Reestablish a housing finance market that has long-term stability in which private capital is the primary source of mortgage financing.
- Restore stability and liquidity to the secondary market for residential mortgages, and prevent significant disruptions to the financial market.
- Encourage innovation and diversity in housing finance that provide choices for consumers.
- Protect taxpayers from further losses and future bailouts.
- Require that taxpayers be made whole on outstanding loans, guarantees and capital infusions made by the government.

#### Principles

- Wind down the operations of Fannie Mae and Freddie Mac within four years, ending once and for all the disastrous government experiment in privatized profits and socialized losses.
- Phase out, over two years, the elevated conforming loan limits in high-cost areas established in the Continuing Resolution enacted on October 30, 2009, thereby cutting off taxpayer subsidies of millionaires' mortgages.
- Reduce the mortgage portfolio holdings of Fannie and Freddie by 25% a year over four years.
- Reduce leverage by phasing in, over four years, capital requirements that are consistent with global standards for large, complex financial institutions.
- Establish a regulatory framework for a U.S. covered bond market.
- Create a regulatory safe-harbor for mortgages that meet underwriting standards that are consistent with the Federal Reserve Board's final HOEPA rule.
- Eliminate the maturity mismatch that allows Fannie and Freddie to fund long-term assets with very short-term borrowing, exposing taxpayers to enormous interest rate risk.
- Create an Inspector General for the Federal Housing Finance Agency and require the IG to submit regular reports to Congress so long as the Federal government's ownership and control of Fannie Mae and Freddie Mac continues.
- Ensure fully transparent and honest accounting of all government spending and liabilities by moving the operations of Fannie Mae and Freddie Mac onto the federal budget, and subject the debt issued by the two GSEs to the national debt limit.
- Immediately suspend the compensation packages approved for the senior executives of Fannie Mae and Freddie Mac, and establish a compensation system in accordance with the rates of pay for Executive and Senior level employees of the United States Government.