The mortgage industry and some lawmakers bristled Wednesday when the regulator for Fannie Mae and Freddie Mac suggested reforming the Federal Housing Administration before determining what broader role government will play in a future housing finance market.

“If policymakers begin with the role FHA should play in the future in terms of what borrowers would have access to this program, and what structural changes might be needed, then it should be easier to consider the government’s role in the remainder of the mortgage market,” Federal Housing Finance Agency Acting Director Edward DeMarco said at a luncheon in Washington hosted by The Exchequer Club.

**Rep. John Campbell (R-Calif.),** who along with Rep. Gary Peters (D-Mich.) offered a bill last year replacing Fannie and Freddie with private companies but maintaining some government guarantee on future mortgage bonds, said housing finance reform must be done all at once.

**“I vehemently disagree and believe it must be done altogether,” Campbell** said in an interview following DeMarco’s speech.
**“If you do FHA reform first, and we take FHA back to its original intent as the lender of last resort rather than lender of first resort, you would then create a huge hole in the housing market.”**

FHA typically provides financing for borrowers with a lower down payment and shakier credit history. The agency now faces a possible bailout of its emergency mortgage insurance fund, mostly from troubled loans insured during the housing bubble.

FHA insures about 14 percent of the market, mostly first-time homebuyers, up from 3 percent in 2006. Along with Fannie and Freddie, the government now finances more than 90 percent of all home loans.

Scaling down FHA first would push more business to the safety net provided by Fannie and Freddie, which are only just now returning to some financial health four years after being taken over by the FHFA.

This could put taxpayers even more at risk, according to Mortgage Bankers Association chief David Stevens.

“None of that is beneficial to getting private capital back into the system,” Stevens said in an interview. “There will certainly be [a] bill considered on FHA, particularly in the House, to protect some of the risk variables. But overall housing reform doesn’t get done until you deal with two very large companies: Fannie and Freddie.”

Such reform went ignored during the first Obama administration term and could avoid much attention over the next two years as Congress tackles stickier issues such as resolving the fiscal cliff dispute — especially now that housing prices and sales seem to be recovering.

**Campbell**, though, said there is a growing consensus in the House Financial Services Committee that some sort of solution can be struck.

**“I’m feeling more optimistic at the moment that there’s perhaps a way we can find a sweet spot here that can make everyone happy,” Campbell** said