

July 21, 2011

## **Housing Finance Reform: Proposals, Policy and Politics**

Panel Discussion, Fixed Income Forum 2011 Senior Delegates Roundtable  
Park City, Utah

Moderator: David Ells, Managing Director, Mason Street Advisors

Panel Members:

- Jeff Foster, Senior Policy Advisor-Capital Markets, U.S. Department of the Treasury
- Janneke Ratcliffe, Executive Director, UNC Center for Community Capital and Senior Research Fellow in Housing Policy, Center for American Progress
- Peter Wallison, Arthur F. Burns Fellow in Financial Policy Studies, American Enterprise Institute

### **Opening Remarks by Janneke Ratcliffe**

The Mortgage Finance Working Group, convened by the Center for American Progress, has been working on the issue of how to reform the mortgage secondary markets since 2008. Our [plan](#) is one of several that involve a public, government role (loosely fitting somewhere in the “Option 3” category of Treasury’s white paper).

Under option 3, there is a large and growing number of plans, including some recent Republican and bi-partisan proposals. There remain many differences between these plans, suggesting that the debate is shifting from “whether there should be a government role” to “what that role should look like.”

I invite you to read our white paper with all the details, but in my opening comments, I will focus on the principles that informed our plan.

The principles of a well-functioning US housing finance system are as follows:

- Number One, **Liquidity** -- broad and constant liquidity. For borrowers this translates into being able to reasonably access mortgage credit no matter what region of the country they live in, what year it is, and whether they go to a small local bank or a national lender. For investors like yourselves, it translates into confidence, which in turn translates into a large, reliable, liquid, efficient market. Many of our other principles largely flow from this core principal.
- The second principle is **Stability**. This has been a priority of the U.S. financial system since end of the Depression. And I hope it’s a priority for those of you managing our pension plans. We’re particularly concerned with mechanisms that counterbalance the private sector’s proven tendency towards pro-cyclical behavior in real estate finance that feeds boom-and-bust cycles. The mortgage market is too systemically important, and the collateral damage too high, to leave the housing finance system completely to its own

devices –the resulting level of volatility cannot be supported by our households and institutions.

- Third, **Standardization** and **Transparency**. It is clear that complexity and opacity in the private label market contributed significantly to the mistakes made by borrowers, investors, rating agencies, credit risk takers and regulators.
- Fourth, **Access** to reasonably priced financing. When we talk about affordability, first of all, we're talking about the benefit that comes from the liquid and efficient market that I've just described. This fourth principle implies that those benefits should be available to all qualified households, and our proposal lays out anti-creaming provisions to that end. Importantly this also means retaining broad availability of the 30-year fixed-rate mortgage. This product in and of itself reduces risk in the system and has been a cornerstone of wealth building for our middle class since its introduction more than 70 years ago.
- The fifth principal, **Consumer Protection**, is something we're watching take shape under Dodd-Frank.

Our proposal achieves these five principles with as much private capital as possible. We propose privately run and well-capitalized entities take the first-loss credit risk function of government-sponsored enterprises (GSEs). They would pay into a government-managed reinsurance fund. The super-catastrophic government backstop would be 1) explicit, 2) paid for, and 3) well protected by private capital.

This is in stark contrast to the prior GSE situation (and that of bailed-out financial institutions) where the guarantee was implicit and ambiguous at best, not paid for, and with too little private capital and too much leverage in the private sector.

Thank you. I look forward to your comments and questions.

### **About the UNC Center for Community Capital**

The UNC Center for Community Capital is the leading center for research and policy analysis on the transformative power of capital on households and communities in the United States. The center is part of the College of Arts and Sciences at the University of North Carolina at Chapel Hill. Its in-depth analyses help policymakers, advocates and the private sector find sustainable ways to expand economic opportunity to more people, more effectively. For more information, visit [www.ccc.unc.edu](http://www.ccc.unc.edu) or call (919) 843-2140.