

Statement of Treasury Secretary Steven T. Mnuchin Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, September 10, 2019

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Chairman Crapo, Ranking Member Brown, and members of the Committee, I am pleased to be with you today to discuss the Treasury Department's Housing Finance Reform Plan that will protect taxpayers and foster competition in the market.

I would like to thank Chairman Crapo and the Committee for your work on this important issue. The outline you released in February was a productive step towards ensuring the safety and stability of our housing finance system.

In September 2008, the government-sponsored enterprises ("GSEs") Fannie Mae and Freddie Mac were placed into conservatorship by the Federal Housing Finance Agency ("FHFA"). Treasury has provided the GSEs with over \$190 billion in taxpayer assistance.

Eleven years later, the GSEs remain in conservatorship and continue to be supported by a Treasury commitment to keep them solvent. The continued conservatorships of the GSEs have perpetuated far-reaching government influence over the housing finance sector. The lack of reform has left taxpayers exposed to future bailouts.

Treasury's Housing Reform Plan includes almost 50 recommended actions. These measures would reduce the role of the Federal Government, enhance taxpayer protections against future bailouts, and increase private sector competition in the housing finance system.

As required by President Trump's directive, Treasury's plan shows that the GSEs can and should be reformed to ensure their safety and soundness. Although no law prescribes a specific end point for the conservatorships, no conservatorship is meant to be permanent, and that includes FHFA's management of the GSEs. This plan provides a roadmap to release them from conservatorship.

Treasury's reform plan takes great care to preserve what works in the current system. Each of Treasury's recommended reforms is incremental, realistic, and balanced. In particular, Treasury's plan would preserve the longstanding Government support of the 30-year fixed-rate

mortgage loan. That support, however, should be explicitly defined, tailored, and paid-for. Treasury recommends that Congress authorize an explicit, paid-for guarantee backed by the full faith and credit of the Federal Government that is limited to the timely payment of principal and interest on qualifying mortgage-backed securities. To foster competition, this guarantee should be available to the GSEs, and also to any other FHFA-approved competitors.

Moreover, the regulatory environment should be harmonized so that the GSEs and private sector competitors operate on a level playing field. For example, the GSEs currently have a competitive advantage over other market participants under the so-called “QM patch” to the Consumer Financial Protection Bureau’s (“CFPB”) ability-to-repay rule. In July 2019, the CFPB announced that the QM patch would expire in January 2021 or after a short extension. Treasury supports the CFPB’s planned expiration of the QM patch, and it also supports further revisions to the ability-to-repay rule to ensure that mortgage lenders continue to have a bright-line safe harbor after the QM patch expires.

Finally, I must emphasize, and our recommendations make it clear, that the Administration’s preference is to work with Congress to enact comprehensive housing finance reform legislation. Legislation could achieve lasting structural reform that tailors explicit Government support of the secondary market, and repeals the GSEs’ congressional charters and other statutory privileges that give them a competitive advantage over private sector competition. At the same time, we believe that reform can and should proceed administratively. Pending legislation, Treasury will continue to support FHFA’s administrative actions to enhance the regulation of the GSEs, promote private sector competition, and satisfy the preconditions set forth in the plan for ending the GSEs’ conservatorships.

Under the leadership of President Trump, I am proud of all of the work we have done to create conditions for greater economic growth, more and better opportunities for working families, and higher wages for all Americans. Today I look forward to discussing with you the critical issue of housing finance reform. I hope that the Committee will work with us on passing bipartisan legislation. Thank you very much, and I look forward to answering your questions.