



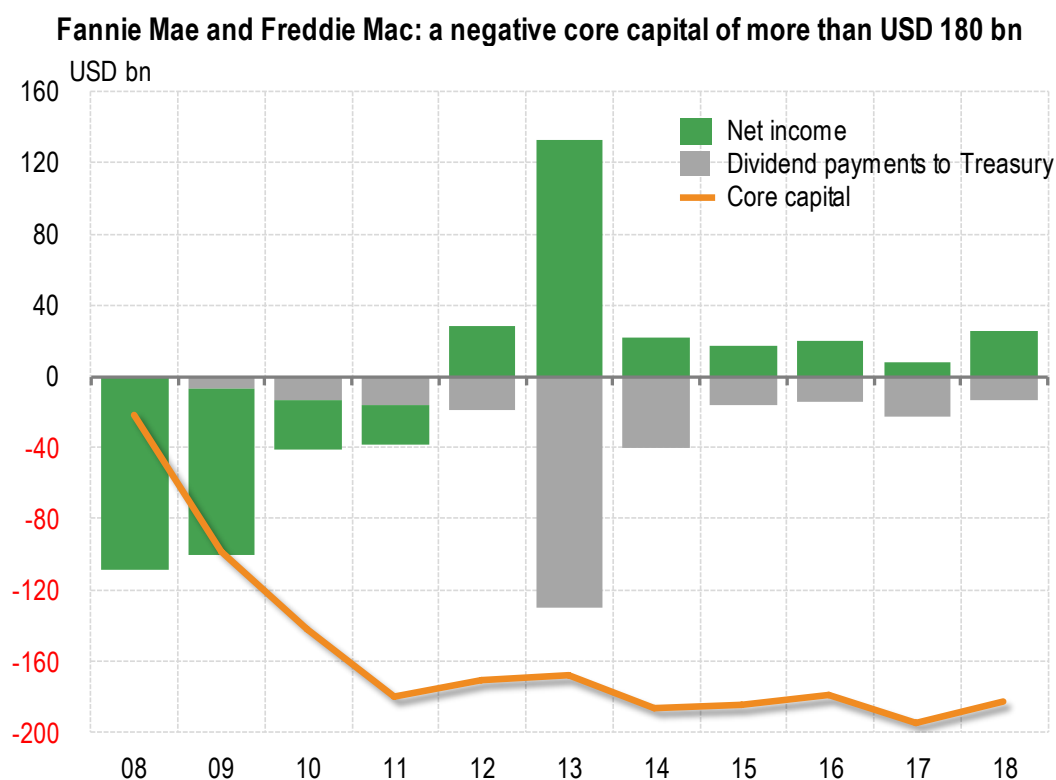
US mortgage market reform: Huge need for private capital

On 1 February, Senate Banking Commission Chairman Mike Crapo outlined his proposal for reforming the US mortgage market. The proposal starts from the widely held position that although public guarantees are essential in ensuring a liquid and stable mortgage market, the Federal government should not be the sole party exposed to payment default risk.

The Ginnie Mae securitisation model of multiple originators and multiple issuers* would be widely replicated, but only the private sector would participate in credit enhancement. Ginnie Mae would provide its guarantee (the government guarantee) to securitisations backed by loans covered by approved private guarantors. Credit risk transfer programmes would be reinforced for “non-extreme” credit risk. To limit taxpayer exposure to credit risk, a mortgage insurance fund would be created and paid into by the guarantors.

Although the subject was not mentioned, the volume of private capital necessary to implement this reform would be huge, especially if it is necessary to recapitalise the current guarantors Fannie Mae and Freddie Mac (which would be “reprivatized”) by absorbing the cumulative losses and dividend payments, which exceeded core capital.

* See Choulet C., *The Fate of Fannie Mae and Freddie Mac is not yet sealed*, BNP Paribas, *Conjoncture*, March 2018.



Source: FNMA, FHLMC