THREE TIERS OF HOME MORTGAGES

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Three tiers of home mortgages

- Government-backed mortgages
- Qualified residential mortgages (QRMs)
- Private sector securitization

Externalities of home ownership

- Positive externalities
  - Home maintenance
  - Community ties
  - Political participation
- Negative externalities
  - Constraint on labor mobility
  - Neighborhood effects of defaults

Government-insured mortgages

- FHA, VA and USDA: 50% of home mortgages
- Gradually increase downpayment requirements
- Should limit by income, not mortgage size

Fannie Mae and Freddie Mac

- Gradually phase out
  - Moderate income through Ginnie Mae
  - Higher income through private sector
- Inefficient mechanism to finance government-backed mortgages
- No need for federal subsidies to higher-income families

Reviving private market for mortgage securitization

- Base capital requirements for banks on actual allocation of risks
- More disclosure for securitized pools
  – Contingent obligations of bank sponsors
  – More detail on individual loans
  – Continuing reporting
- Simpler structures
  – Only one tier
  – Limited number of tranches

Reform proposals for credit rating agencies

- Limits of promoting competition
- Impracticality of “investor pays” model
- Deficiencies of automatic allocation
- Neutral representative chooses agency

Qualified residential mortgages (QRMs) I

- Exemption from risk retention
- Accelerated review of MBS offerings
- Preferred position in bank insolvency

Qualified residential mortgages (QRMs) II

- High downpayment requirement
- Limits on prepayment penalties
- Relation to Fannie and Freddie