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THE PATH FORWARD FOR HOUSING FINANCE

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A Potential Path Forward for Housing Finance:

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P R O C E E D I N G S

MR. KLEIN: Good morning. My name is Aaron Klein. I'm a senior fellow at the Brookings Institution and it's my pleasure on behalf of Brookings and the Center on Regulation and Markets to welcome you here today to talk about the future of housing finance reform.

You know, America's housing finance system is a critical underpinning which has created the ability for millions of American families to own a home, so called achieving the American dream. We've created a unique financial structure that allows us, with 30-year mortgages available with a one-way option for the borrower to repay, to refinance whenever they want. And this system led to the creation of tremendous wealth and homeownership and many other opportunities for large segments of the American public for a long time. Now, large segments didn't benefit from this or didn't, for a variety of reason, which we're going to get into.

Going into the financial crisis in 2007, I vividly remember a hearing in which then Treasury Secretary Paulson came before Congress and asked for extraordinary power to put in Fannie Mae and Freddie Mac, the two government sponsored enterprises who created the American housing finance system, to give him bazooka authority to put these things into conservatorship, which he said, I need the bazooka but I'm not gonna fire it. I was then the chief economist for the Senate Banking Committee, who ultimately passed that legislation, entitled HERA, the Housing Economic Reform Act. And shortly after granting Secretary Paulson that bazooka authority he was fired. Fannie and Freddie were put into conservatorship in 2008, a situation in which they remain. It is a fact of the 21st century that Britney Spears ended her conservatorship before Fannie or Freddie.

Today we find a situation with soaring house prices and the lowest level of black homeownership in America since the 1960s or maybe even further. Record low black homeownership, 25 percent increases in housing values, and two government sponsored entities still sitting in conservatorship. What the heck is to be done about this?

Well, we're incredibly pleased to delve into this conversation. And I can think of no one better to start us off than Mike Calhoun. Mike is the president for the Center for Responsible Lending, the public affiliate of Self-Help, the nation's largest community development leader. For more than 30 years Mike has been on the front lines working for economic justice. At CRL he provides management and policy leadership. Based in DC, he often testified before Congress and appears frequently in the national media and events like this as an expert on financial issues. He was a former chair of the Federal Reserve Consumer Advisory Committee.

And, most importantly, one year ago, 2/23, Mike and his co-author, Lew Ranieri, who is considered the father — or the grandfather of mortgage backed securities, wrote a paper that we published at the Center For Regulation and Markets at Brookings laying out a path for GSE reform. And a year later we're here convening to discuss the Calhoun-Ranieri plan and debate whether or not this is a wise step forward in a process that we'll get to where some will question whether it's dead or alive or we're in a perpetual conservatorship.

So, Mike, why don't you join us and lay out and walk through what your plan is and why we even need a plan to change the status quo. So what is it that you want to accomplish? Why do we need something different and what it is?

MR. CALHOUN: Thank you, Aaron, and also thank you to the wonderful panel that you've assembled that you'll introduce later. And also I want to send regards from Lou Ranieri, who is unable to join us today, but he really was the impetus behind the paper and brought a lot of the technical knowledge that is included in it.

So some questions are, first of all, what the plan is, why we need it now. It is one that builds on the debate that has occurred in these last 13 years since the GSEs were put into conservatorship. There has been a consensus growing during that time that the GSE should be restructured rather than demolished and replaced and that the structure should resemble a utility model. And translating that into the financial industry has some challenges, but it's not without precedent. A lot of insurance companies operated in a similar way at the state level with supposedly regulation of reasonable returns and adequate capital instability. So there are parallels there given that the primary role of the agencies is an insurance company and a facilitator to the secondary market.

The approach is to look for a way to do it administratively, which we believe can be accomplished. And it's not that Congress should not have a role here and Congress will have a role, whether it's formally in the terms of legislation, but clearly in DC you don't take action that is out of kilter with Congress and the administration and expect it to be durable. But it's recognized that with the filibuster threshold it is very hard to pass major legislation like this, especially when there is not an immediate deadline, like you have happen with flood insurance every year, and still we only get an annual extension on that.

It also builds on the experience during the conservatorship of things that have worked well and things that need to be locked in. And, again, one of the really important lessons in this paper is wherever you want the GSEs to be, you need to get them there before they're released from conservatorship because after that it is very difficult and near impossible to make changes. But we believe it can be done administratively. And the two big components are a utility type structure that locks in their public mission. And I think what we've seen in the last two years really elevates the need for that, with the GSEs stepping in in this pandemic in a way in fact much more aggressively than even in the Great Recession, stabilizing the overall housing market by allowing deferral modifications and supporting the CARES Act forbearance provisions, keeping servicers solvent. And that that stabilizes the market and also prevented a lot of avoidable foreclosures that would only have aggravated the racial housing gap that you talked about.

Also, I think it is a time of reflection. As you say, we're a year into the Administration. There's a better view of what is possible. Most people put the prospects for major housing funding in a build back better is possible for some funding but not what we should call historic levels of funding that had been in build back better. And given that we have been stuck in this rut of this homeownership gap for nearly 50 years now, we clearly have to take new steps. I mean one of the things we tried to lay out in this paper is the homeownership gap is a manifestation of legacy of discrimination, and including all too prevalent ongoing discrimination, that created a vast differential and disparity in wealth. And it is the case that wealth begets wealth. That's true in the housing market as well. And our housing system right now works well for families who have personal and inter-generational wealth, but not so well for those that don't. And it has to if we're ever going to make progress on the homeownership gap. One statistic that I think captures that pretty well, as we sit here today, the homeownership rate for white households who did not complete high school are higher than the homeownership rate for black families who have completed college or are college graduates. And this is a reflection of this massive influence of the vast differential in family wealth.

Let me stop there for other questions, but that quickly is the approach.

MR. KLEIN: But let me pick up on that last theme, because it's incredibly important for appreciating what's going on here. That this isn't just a legacy situation, but the status quo is actively aggravating.

MR. CALHOUN: Exactly.

MR. KLEIN: Black homeownership fell last year, house prices went up 23 percent. In 2020, which was the most recent data that I was able to get, in the State of New York, the GSEs originated 20.5 loans per 1,000 white people. For blacks that was 1.6 — 20.5 to 1.6. Hispanics 1.8. Now, New York is about 70 percent white, 20 percent Latino, and about 18 percent black. So 1 out of 6 people in the State of New York is black, but whites are getting 17 times as many GSE loans generated. That's last year. That's the new flow of people.

How would your plan change this? I mean if they go out and utility model, what is your plan doing to address this situation that is ongoing? How does your plan fix that?

MR. CALHOUN: So a couple of things. And I'm going to add on to just your comment about where we are on the trajectory of the racial homeownership gap. I want to be clear to folks your statistics from the last couple of years are not aberrations just because of the Covid crisis, which certainly has created an additional obstacle. The Urban Institute projected before the Covid crisis the trajectory of homeownership over the next 20 years and their projection is that with demographics in the current housing programs that we have now, the homeownership gap will actually grow over the next 20 years. This is not something that our current system on automatic pilot and with time will resolve. And let me be clear, there are a lot of heroic efforts going on out there, and we've got examples from the Low Income Housing Coalition here, to serve families of less income, less wealth and to serve equitably all groups. So those are making a huge difference. But even with that, we are not on the track to make any significant progress.

The big thing we would do is institutionalize the affordable housing goals, the duty to serve the whole model, and reconcile the inherent tension between the GSEs being for profit entities. The directors have a fiduciary duty to reasonably maximize profits for the shareholders and there has to be a strong counterbalance to that if the public mission is going to succeed. And also, even though they are a duopoly, you know, they are in competition with each other and affordable housing efforts are less profitable typically and at times even a cost center. And if you're duty is to maximize returns for shareholders, that is in direct conflict with this other duty. And how is it resolved?

I mean, just today, if there are actions that one GSE takes, while it might further affordable housing, it can disadvantage them, for example, as to market share.

MR. KLEIN: So how does your plan fix this?

MR. CALHOUN: By locking in a lot of the extraordinary authorities that the conservator has in –– the director of FHFA has in conservatorship that FHFA has. And just as an example, the fact that the GSEs step in with the deferral mods that Director Calabria ordered, the estimates were the cost of that and the advancing –– covering advances from services was north of $15 billion. You have to build those kinds of resiliency and market support, as well as individual borrower support into the system. And this does this. And the hook, if you will, is right now Treasury in essence holds all the cards there. They've got the GSEs in a debt trap that the payday lenders, as one judge said might admire, in that they can never pay off the debt. The GSEs need a backing most believe, and I do, from the Treasury to satisfy secondary market participants who want that backing.

And so those hooks provide extraordinary tools to set a new — within HERA — still provide the tools to set the regime — much of what we have now and even build further on it. There are some challenges we'll talk about here about how to not only put that in place, but to make it durable where it's in place so it couldn't be easily reversed if, for example, there's a change in administration in the future, which there will be at some point.

MR. KLEIN: So your plan requires Treasury and FHFA to put these modifications in structurally as part of the release of conservatorship. It does not require Congress to make a vote or an administrative action? That was one of the questions we got in from the audience.

But I want to pause you on other key element here. Because the Treasury Department is sitting on a large ownership. The Treasury Department took 79.9 percent, right, which is a magic number in the sense that over 80 percent triggers a series of accounting laws.

MR. CALHOUN: Right.

MR. KLEIN: This was a number that you saw the Federal Reserve take from AIG and other parts under financial bailout. As part of your plan, which I found fascinating, you describe what happens to this 79.9 percent of ownership as part of that. And specifically, and this was a question that was — quoted part of your plan in one of the audience questions. So your plan — "the GSEs should support a restorative justice homeownership fund that should be funded administratively". How does your plan do that? How much money are we talking about? And what could that money do as it relates to the racial homeownership gap and the other challenges that homeownership faces? One question we got from the audience has to do with people's whose credit scores — whose true credit worthiness is not well reflected in this artificial intelligence called FICO, or Fair, Isaac, which seems to dominate the ability of whether or not you can qualify for a mortgage based on a number that looks like your SAT score.

So how does your plan specifically create this administrative restorative justice homeownership fund, how much money are we talking about, where does that money come from without Congress, and how does it fix the homeownership gap?

MR. CALHOUN: In developing this plan, Lew Ranieri and I looked back at what had been done in the Great Recession with other entities, as you mentioned, AIG, the car manufacturers who received assistance. Now, they received assistance under TARP and here we had HERA. They have identical provisions regarding Treasury's authorities and responsibilities. So we believe the precedents are accurate. And as what we saw in TARP was on several occasions Treasury waived stock rights that they had in order to support entities, and in particular AIG, and also the car manufacturers. And I think two things that are noteworthy there that make the case for doing it with the GSEs even more compelling, with those entities, first of all, they were purely for profit entities with no public charter, no public mission built into their organizing documents. And, second, they did that in those circumstances even though the Treasury incurred significant losses on those investments.

In this case we've got publicly chartered entities with a critical public mission and this has been the most profitable investment of any of the Great Recession rescue efforts. And that's how we started to build with it.

It also builds on another thing that was done administratively, and that's the creation of the Common Securitization Solution, the securitizing entity that got us a common security rather than Fannie and Freddie separate mortgage-backed securities. That was done administratively under HERA without congressional action. It's a massive undertaking.

I mean people think this is paperwork and an IT, I mean they have hundreds of employees, you know, they are — what is churning out the second largest financial markets securities in the world other than U.S. treasuries, and they do it also with a joint board that is approved by FHFA.

And so this would be very similar, an administratively created entity that receives — there are a couple of different ways it could be done, I don't want to burn a lot of time on that here — to get the value of the government's interested in a GSE release.

And you asked the question, $64,000 question, how much. The Congressional Budget Office did a study of this in the fall of 2019 and they project that in the next couple of years that the value would be $100 billion. So, again, even multiples, to put that in contrast, the down payment assistant in build back better was $20 billion. The entire housing package was about $150 billion, including rental assistance and public housing assistance. So a significant down payment on what is needed to make progress on a lot of these. And the idea is this is not all spent at once and it is not creating an operational agency that runs housing programs, it would be a grant making we built off of the federal home loan banks affordable housing program where they statutorily take a portion of their profits and grant it out to support affordable housing measures. And it's well received, quite efficient.

And also the politics are that I think it needs to be separate so that it's restricted. And there are concerns that it would be used politically if it didn't have safeguards built it.

And when you go back to again, one of the encouraging these — and this came up in the recent confirmation hearings — there is bipartisan interest in resolving conservatorship and there is more consensus there regarding in particular utility structure. There are some differences, but more consensus there than there has been in the last 13 years. The prevailing wisdom, which I buy into, is it still is very unlikely that we see legislation there, but Congress can influence things substantially in DC without having to enact a federal act.

MR. KLEIN: From my time in Congress, the biggest thing I look back on is overestimated the hard power of legislation, underestimating the ability of creative legal maneuvering by administrative entities I thought I boxed in in law, and I underestimated the impact of soft power, of questions, of letters, of hearings. So I completely agree.

But I just want to flag something, because what you said is administratively if a set of keys are turned the Treasury Department can release these entities from conservatorship with FHFA. Hardwiring in duties to serve another affordable housing structure and authorities like in the pandemic, et cetera, where director Calabria — you seem to praise what he did in terms of that response, but then hardwire that so if there are private entities you'd still get those beneficial choices. Freeing up up to $100 billion of money not requiring congressional appropriation that can be distributed through structured nonpolitically influenced mechanisms, like the home loan banks, which I would note as a historical matter, that set aside came after the government bailed them during the savings and loan crisis, right. And many of the same savings and loans are thrifts for which the home loan banks messed up on the '80s, where at the epicenter of the last subprime mortgage crisis. But hold that aside. You're freeing up $100 billion, which is 5 times the amount of down payment assistance that was in build back better. That money can flow through.

You know, I guess I'll close with one last question, because I served in the administration the day after a midterm shellacking, as the president described, and when I walked in the day after the election the note came from the White House to Treasury, and every other agency, give us a list of things we can do in the next two years to accomplish the president's agenda without congressional legislation. Doesn't have to be over Congress' rock hard opposition, there can be pockets of support, but what can we do administratively.

If you were in the Treasury Department and if that happens, come November, who knows — but I think many forecasters are saying that — is your plan on that list? Does your plan set those criteria? And how would that look if there is no build back better by the end of this administration?

MR. CALHOUN: So obviously that's a decision for the administration, Treasury, and FHFA to make. I mean I would note that Director Thompson has already taken important steps consistent with moving the GSEs to fulfilling their role more directly, increasing the affordable housing goals, the racial equity plans, the capital reform. So I think there is a compelling case for this. This is one of the places where there is the greatest administrative authority there. And, again, there has been — and it will be interesting with the panel today — there has been I think some widespread support for this plan across the political spectrum. And I think that the goal here was try to come up with something that met all of those.

And I do think it also is people I think forget some. If you go back before the subprime crisis in particular, the GSEs are not just a utility that helps facilitate the finances, they are and have historically been pillars of the financial system, as you described, and they set standards for the whole market. I mean it's no accident that even today the majority of mortgage notes, even not GSE paper, are written on the GSE notes because they are the standard. The seller servicing guides are the standards for most servicers, even for not GSE loans. They're the reasons we didn't have prepayment penalties and arbitration clauses in mortgages for a good stretch.

Now, they got disrupted by the subprime market when temporarily that took away their market setting authority, because they were pulling away a quarter of the market into sustainable subprime loans. I think now with mortgage standards in place that's unlikely to happen again.

And so in a lot of ways this is returning the GSEs to the role they have, enhancing it given what we've seen, that two once in a hundred year events in ten years means maybe we ought to think about the possible third one. And just to recognize, I just we as housing advocates have done a really good job of lifting up the homeownership gap and the historic discrimination that created it.

We have not been nearly I think as effective on conveying the magnitude of the effort it will take to address that if you really want to change it. I think we have understated by an order of magnitude that we need tenfold more than what people have been thinking about. And I know talking with some prominent conservative housing scholars, they actually agree with that. But we need to build on that and start the process of really devoting the resources, changing the structures, make this system work for everyone, and particularly for households who were denied a fair opportunity to build the wealth that helps so many of us.

MR. KLEIN: Well, Mike, thank you very much. I appreciate your time. And as you alluded, I'm going to invite the panel to come up. I'm going to introduce them as the technological wizards, change everything. And thank you for applauding — for coming forward and discussing your plan. Hopefully a year from now there will be more movement and conversation, whichever direction, but you've laid out a thoughtful and concise plan to address the problems you identified. And I encourage everybody, pull it up, the Calhoun-Ranieri, "*GSEs at the Crossroads*"; Brookings published it a year ago today.

So, with that, thank you very much, Mike.

And now I'm going to start introducing the panelists.

Bryan Green is the vice president of public advocacy at the National Association of Realtors where he oversees all legislative and regulatory advocacy on behalf of the Association's 1.4 million members. Before joining NAR he served for ten years as deputy assistant secretary at HUD's Office of Fair Housing and Equal Opportunity.

Diane Yentel is the president and CEO of the National Low Income Housing Coalition, a membership organization dedicated solely to achieving socially just public policy that ensures people with the lowest incomes in the U.S. have affordable and decent homes. Before leading her organization she was vice president of public policy and government affairs at Enterprise Community Partners and also served as the director of public housing at

HUD.

Margaret Franklin is the vice president at Fulcrum Public Affairs where she focuses on housing and financial services issues. She was Representative Al Lawson's legislative director and worked for Senator Kirsten Gillibrand on financial services and housing issues. While on the Hill Margaret served as president of the Senate Black Legislative Staff Caucus and she currently serves on the Prince William County Board of Supervisors in Virginia where she's a leading voice on affordable housing issues.

Although she is not here in her local elected capacity, I think it's incredibly important in any conversation about housing that we stress to have people on the local level, because national policy really, you know, is one thing, but the rubber meets the road in a different level at the local level.

Dennis C. Shea is the executive director of the J. Ronald Terwilliger for Housing and Policy at the Bipartisan Policy Center. He served as a consultant to BPC's blue ribbon housing commission, which I think was the genesis of many of Congress' legislative efforts during this 13-year period that Mike pointed for congressional action. Shea served as deputy U.S. trade representative and U.S. ambassador to the World Trade Organization, and is assistant secretary for policy, development, and research at HUD.

So, with that, I think we have our panel set. I'd like to appreciate everybody for joining.

And let's kick it off. Why don't you guys respond to Mike? What do you have to say? Mike threw a lot of things out there. What do you have to say?

Dennis, do you want to kick us off and go around the horn? What was your take? Mike, you've got to unmute yourself. Let me remind all my panelists.

MR. SHEA: There we go, there we go. I thought I had unmuted myself.

Good morning, Aaron, and thank you and really thanks to Mike for his really important contribution to this ongoing dialogue. Who would have thought it would be a dialogue that would be ongoing for 14 years. But appreciate his paper, appreciate the emphasis on addressing the staggering gap in the homeownership rates between white households and black households and Hispanic households. It's nearly 30 percentage points.

Homeownership, as you have pointed out, Aaron, is the primary means by which people in the United States accumulate wealth over time. One statistic that really sticks out to me is that the median homeowner has 40 times the wealth of the median renter. And, of course, we cannot ignore the legacy of government sanctioned discrimination, like FHA redlining that has had lingering effects which are being felt even today.

So I just want you to know, the BPC has established a housing council — Bryan is a member of good standing on the council — to look at this issue of racial equity in housing. And the council will release some recommendations in the coming months.

The BPC, through the newly created Terwilliger Center, which I lead, has been highlighting the need to increase the supply — dramatically increase the supply of housing. You know, over the past 20 years we have dramatically underbuilt housing and as a result we are seeing a soaring home crisis, soaring rents. And so when we talk about increasing access to affordable mortgage financing, of course that means increasing demand. In other words, we need to make sure there are homes to buy, otherwise we're going to push up prices even more.

You know, specifically on the issue of housing finance reform, I guess you could say that the BPC peaked early. As you know, Aaron, back in 2013 the BPC housing commission, which was a blue-ribbon panel of some really outstanding individuals, called for comprehensive reform based on the Ginnie Mae model. And this involved a complete phase out of the Freddie and Fannie over a period of time, maybe five to ten years, and the creation of a new government corporation that would collect fees and guarantee the timely payment of interest and principal on mortgage-backed securities. But that guaranty would only be triggered if there were multiple layers of private capital ahead of it that would be tapped before the government guarantee was tapped.

But importantly, at that time, this was a bipartisan group. They recognized that the government backstop was absolutely necessary to preserve the broad availability of the long-term pre-payable fixed rate mortgage. The commission of course, as everybody, rejected the business model of the GSEs. That was privately owned companies with a public mission benefitting from an implied guarantee and other benefits and then socializing the losses when things went downhill. That model obviously does not work.

But many of the commission's ideas and its overall approach were reflected in the Corker-Warner bill, which later became the Johnson-Crapo bill. And we had high hopes for that legislation. Johnson-Crapo did not make it out of — made it out the Senate Banking Committee but did not make it out of the Senate. And as I recall, some of the more progressive members of the Senate thought that the affordable housing provisions of Johnson-Crapo were inadequate.

But let me say, you know, BPC, we're the Bipartisan Policy Center. You know, we strongly feel that reforming a multi trillion-dollar mortgage finance system must have strong buy in from both political parties if that solution is to be durable. And I heard Mike use the term durable a couple of times. That's really important. And I certainly understand that the administrative route that Mike and others have proposed appears to be the only viable way forward. I mean, after all, 14 years have transpired and Congress hasn't taken action. And there have been positive steps taken during the conservatorship administratively, such as reducing the portfolios and shedding risk through credit risk transfer mechanisms, establishing the common securitization platform. So there's been a lot of great things that have happened administratively.

So but the think I would ask, you know, Mike has mentioned that he's getting — there's a merging consensus, he hears conservatives say they are becoming attracted to his proposal. I would like to hear more about that. And does he really see a bipartisan path forward. I know that Senator Toomey, who's the ranking Republican on the Senate Banking Committee has recently released a set of reform principles and has called for more congressional administrative engagement on this issue.

You know, I would love to hear Mike amplify, maybe offline — does he think an administrative approach would be really durable over time because, after all, I could see things changing from administration through administration and policy preferences change during the different swings.

MR. KLEIN: It's true. It stunned me how durable conservatorship is. When we drafted the law for HERA this was only supposed to last a brief period and you've seen swings in administration from Obama to Trump to Biden. And as we all agree, the conservatorship has been shockingly durable.

Margaret, you know, I'm reminded of the statement my boss, Secretary Geithner, used to make, plan beats no plan. And so Mike has a plan. Dennis pointed out BPC had a plan. They had high hopes, they had bipartisan buy in, but to be fair their plan didn't make it over the finish line. For better or worse, Mike has a plan. What do you make of the plans? What do you make of Mike's plan?

MS. FRANKLIN: well, first of all, Aaron, thank you for the invitation to serve on the panel and thank you to my fellow panelists for also serving.

I would say that the Calhoun plan is the blueprint, right. It lays out the blueprint from A to Z on exactly how to go about more affordability. What I thought was interesting and what I thought was important is that, you know, it outlines the challenges that we're facing in the affordability space, which is lack of housing supply, which a couple of other people mentioned, restrictive credit regulations that are hurting certain people that may have the actual amount to kind of put forward for a home, but because of the credit restrictions can't go forward, right. You have higher fees on loans for —on those that have certain challenges. And all of these have a disparate impact on minority borrowers, right. And so this paper kind of outlines that, but it also goes forward and says that this is how we can actually provide better resources in this space because essentially what we have is an equity issue within the housing discussion right. There isn't enough affordable housing stock and even the stock that we have doesn't go far enough in order to provide those resources.

So I think the Calhoun paper lays out very clearly, you know, you can take those stock interests that the government has, you can put those into a separate entity and administratively make sure that those revenues that come from the interest can go directly to building affordable housing.

Now, I think someone else mentioned that it's not easy, it's not something that can be done overnight, but I can tell you from a local perspective, all of the affordable housing work that we're doing is coming from our own resources. Now, imagine how limited of resources we have coming out of a pandemic specifically, right. We have to implement feeding programs, we have to increase our funding for other social services, and then we still have this affordable housing crisis that we're dealing with.

I represent an area in northern Virginia, one of the most expensive places to live, right. And so we are dealing with this and seeing it on a local level, but the challenge is we have to solve it on a local level. So having these additional resources clearly outlined in the Calhoun report, I can tell you will do wonders for localities.

MR. KLEIN: That sounds optimistic.

Bryan, what's your take? I mean realtors are a powerhouse in Washington. What's your take?

MR. GREEN: well, you know, so far I think all of us on this panel are very much in agreement on the fundamentals. And, you know, I think Mike in particular just tied it all together, just describing not only the importance of the GSEs in fulfilling — or the need for the GSEs to fulfill their charter duties, but just how systemically important that's going to be to dealing with the homeownership gap.

I mean in many respects it's sort of like we have a car in the shop right now and it's been in the shop for about 14 years. And before it leaves the shop this is the time to get everything in working order. And I think it's also the time — you know, it's like the mechanics have also discovered we've got a lot of features on this car that we've never used, we've never fully realized. And this could be a really souped-up car and change the entire market if we, you know, activate everything that was designed in the car.

And so I think this is the fundamental point here, that we need to make sure FHFA right now has the tools so that when the car is road ready again when it comes back, it can — or not come back, but that when it puts it on the road it has what it needs to highly function. But that, you know, they can regulate it and ensure that it's continuing to do what it's supposed to do.

And so we think, for example, the systemic important financial market utility model is critical for FHA going forward to hold the GSEs to its charter duties. I mean by definition, really, the GSEs are the systemically important financial market utility out there and we need to be explicit about that. We actually need to have an explicit guarantee for the GSEs too. NAR feels very strongly about that as well. You know, no pussyfooting around. Let people know there's an explicit guarantee, let investors know that so GSEs can be as strong as they need to be, but also direct resources into those charter duties as well.

So just generally, we have an opportunity with the GSEs as they are designed to begin to close some of these homeownership gaps by focusing their attention to serving the low- and moderate-income borrowers they are designed to — I mean this is their raison d'être — as well as underserved communities. So we need that utility designation and to do that.

But I would also point out that I think right now we are looking at all of these things and we're not as — yeah, I guess I would just say — underscore again that we're just not as explicit as we can be in providing these designations. So we should be looking around at how we can firm all of these things up.

MR. KLEIN: So, Diane, what's your take? You represent a little bit of a different constituency, what's your take on the Calhoun plan?

MS. YENTEL: Sure. Thanks, Aaron, and thanks for the opportunity to be here. Thanks, Mike, for his leadership on this issue and in this paper.

Overall I think it is very good. I would agree with many of the major concepts, and I want to hone in on how wholeheartedly I agree that the potentially $50 billion to $100 billion of stock value held by Treasury should be used for affordable housing.

Mike and the authors make a strong case for why money should be used to increase first-time, first-generation homeownership. I don't disagree with any of those arguments. Kind of where I do disagree, and Mike won't be surprised to hear me say so, is with the author's suggestion that the entirety of that money be used for this purpose or for other purposes related to homeownership.

You know, Mike and the authors briefly touch on the challenges facing renters, and especially renters of color, in the report, but the current congressionally authorized GSE-funded solution for renters, the National Housing Trust Fund, is literally a single footnote in the paper. And given the tremendous challenges that are currently faced by renters with low incomes, predominantly people of color, and by people without homes at all, by people experiencing homelessness. Again, disproportionately people a color. A significant share of the $50 to $100 billion, if it's used for these purposes at all, must be used to expand the National Housing Trust Fund to build and preserve apartments affordable to extremely low-income people. I think the need couldn't be more clear, having just come out of — or wherever we are right now, whether we're post pandemic or still in the pandemic. The pandemic clearly exposed and exacerbated the tremendous rental needs — affordable rental needs for the lowest income people. We have a shortage of 7 million apartments affordable and available to extremely low-income people. Another way of saying that same number is for every ten of the lowest income families there are fewer than four apartments that are affordable and available to them. And as a result of this longstanding chronic shortage we have over 10 million of the lowest income families that are paying at least half of their income towards rent each month. And many are paying much more. And to make matters worse, of course now rents are skyrocketing, most harming the lowest income people who are disproportionately people of color.

And using these funds to capitalize the Housing Trust Fund would also lessen if not eliminate the need for what Mike and the authors refer to as an independent affordable housing entity of the GSEs. You know, there is already a program, there is a mechanism to fund affordable housing development and preservation through the National Housing Trust Fund. And the statute makes clear that additional funding sources can be used for the same program and essentially the same mechanism. And I think it would be a mistake to have an independent affordable housing entity because it could operationalize an idea that the GSEs' affordable housing work should be separate where it should, as the authors otherwise make very clear, be central to the work of the GSEs.

MR. KLEIN: So, Diane, to be very clear, you're talking about the thing established in here? Because I remember when I was working on that law, they were supposed to take some of the profits from Fannie and Freddie and put it through to various affordable housing trust funds.

There's a question that came in from Peter Knight in the audience that said with the increased funding for affordable rental housing in build back better not likely to become law, can the GSEs play a role in addressing the housing challenges faced by low-income renters. And what I'm hearing from you is under the Calhoun-Ranieri plan, the answer is yes, if that money is spent in a way that's completely consistent with the HERA law. And the question from the audience tying this in, if that funding doesn't materialize from build back better, do you see any other path forward to getting the type of money to fix the problems that you're describing that are going to be with us, wither it's post pandemic or endemic, or whatever Covid looks like for the next five years. Hopefully it won't last as long as the GSE conservatorship, you know, but is there any other path? Is the Calhoun path the only path plausible absent build back better to get the type of funding that you think is necessary?

MS. YENTEL: For funding it may well be. I mean what I would say, build back better is not dead yet, so keep calling your members of Congress. We're still pushing for those essential affordable housing investments. But, yes, if build back better — if we miss this tremendous once in a lifetime opportunity to get this scale of investment from the Federal Government for housing for the lowest income renters and people experiencing homelessness, there's not a lot of opportunity congressionally in the next several years, maybe longer, to have this level of investments that's so badly needed. That's why it's such a tremendous opportunity now in this plan to look at this stock value and consider how it could further capitalize and expand the housing trust fund.

But I want to say too that when it comes to what the GSEs can do on affordable rental housing, certainly expanding housing trust funds is the easiest and the most obvious, but there are other ways. And, you know, Mike mentioned, and certainly we support and agree with, yes, duty to serve, yes, affordable housing goals, but I would say too that this is a time to be really creative and bold. And we saw the Federal Government, and to some extent state and local governments, really showing a new level of boldness in response to the housing needs from the pandemic. The federal eviction moratorium, the $46 billion for emergency rental assistance, which was 46 times the amount that Congress provided to renters after the Great Recession, and FHFA too was really first in its boldness. We heard a few mentions during this panel how Mark Calabria extended forbearance to homeowners. In doing so he was the first from the Trump Administration and before Congress to use his authority to essentially apply a limited eviction moratorium on those mortgage holders that received forbearance that had tenants, as has been done after natural disasters, like hurricanes. And, you know, in our view this was an absolutely justified and necessary use of FHFA's power and of the GSEs' reach.

And I would argue that as we consider GSE reform, whether legislative or administrative, that we should continue to think and act boldly in the face of great need and go further with pulling on this lever to create greater tenant protections. Some of the conversations we had with Director Calabria included FHFA potentially taking action against landlords with federal backed mortgages who were violating (inaudible) moratorium and potentially finding them in default on their loans, barring them from received future backed loans.

We can continue with this creative line of thinking and have the GSEs really play a critical role in protecting tenants in the housing they live in today.

MR. KLEIN: Bryan, I'm hearing Diane talk about some of the features of the car that I think it fit in perfectly with your metaphor. Dennis, I'm hearing Diane praise a Trump Administration appointee and I'm going to guess that that's not something she does on a regular basis, so it should make your bipartisan heart swell. Margaret, Diane was pointing out and really echoing your insight about the need for local investments.

I mean are these all outcomes that can be directed here? How do we reach these goals? Maybe each of the three of you can respond a little bit?

Margaret, if you want to kick us off.

MS. FRANKLIN: Sure, sure. And I'll just say that I think it is critically important to talk about the rental needs. I think that as we talk about GSE reform we will be remiss to not mention the fact that when we talk about affordable housing, a lot of that discussion is going to have to be within the rental, right, because you have some individuals that are just not ready to move into the mortgage space, that just needs an affordable rent per month, right. Northern Virginia, we certainly see that as a challenge.

And then just to highlight the fact that there are various proffer funds that different localities may be using towards the affordability effort. Diane mentioned about the Housing Trust Fund. I know that there has been some efforts on a local level to put forth similar measures locally. So I think all of those are critically important.

And I will just say that I don't think there has to be an either/or with regards to the treasury stock interest that can be set up an entity that goes specifically towards affordable housing versus some of the housing trust funds that we already see. I think we need both, right. If we can attack affordable housing crisis on all fronts, I think that's how we win.

But going back to the Calhoun paper, I just think that it sets up a pretty good blueprint to say, listen, this is how we can achieve some of these goals more immediately. Because quite frankly, we can't wait to see what the next administration is going to do. We can't wait to see if Congress is going to pass from one party to another (inaudible) local affordable housing some eons ago.

And so, again, I think that this kind of gives us a good step by step into how we can address some of these concerns.

MR. SHEA: I'll just jump in.

I totally agree with Margaret and Diane about the importance of rental housing. After all, the GSEs have multifamily rental financing operations and as I recall they were not responsible for the disaster that we saw in 2008, these multifamily operations.

So it's also important to realize that rental and homeownership are part of the same spectrum. If you reduce rental costs renters have more money to save for a down payment. If you put more people into homeownership or increase opportunities for homeownership, that means renters can go into homeownership and reduces the demand on rent and should have favorable affordability implications for rents, more renters can become homeowners.

So they're all part of the same spectrum and rental housing is critically important.

MR. GREENE: Yeah, I want to underscore the same. And, you know, the FHFA just raised the caps on the low-income housing tax credit bonds the GSEs can buy. The use of that I think really key.

And then we have so many other issues now out there as well. You know, we have the Neighborhood of Homes Investment Act scenarios as well, offering opportunities to help improve communities and help improve the housing stock in those communities overall.

I just want to also just add another point, getting back to the homeownership gap. You know, just strengthening the GSEs, strengthening FHFA's oversight of the GSEs just offers again an opportunity for us to address the gap in a non-race specific way. And I think that creates opportunity for some bipartisan collaboration on this. This is a way to sort of reach back to those issues that Mike described, you know, where people didn't have the opportunity at the ground floor to achieve homeownership because of explicit discrimination. We can now use a lot of the charter duties of the GSEs to begin closing that gap without being — you know, without explicit legislation dealing with this.

One way or the other, we're going to have to confront this since the gap is widening. And, you know, if people don't want a race conscious solution, we have tools with the GSEs right now.

MR. KLEIN: Well, that's great.

You know, we're coming up on the end of our time. I know some people will be dropping off at noon.

One final question, speed round style. Don Layton, the former CEO of Freddie, put a recent out a post and he said is GSE reform dead. And he kind of answered not quite, but it's in a bit of suspended animation. Margaret made the point, can this really wait until the midterms, can we wait.

So the question for the panelists, very briefly — we'll start with Diane and we'll go around to Diane, Brian, Margaret, and, Dennis, you can close us out — is GSE reform dead? And can we wait, can we afford to wait? What is the cost of waiting further to restart it? And if it is restarted, is the Calhoun plan or something like it the most likely path to restart, or an alternative?

Diane, why don't you start us off and then — understand this will be everybody's final comments.

MS. YENTEL: I think legislatively it's very hard to imagine what gets Congress to act in the short or even the medium-term. So congressionally mandated GSE reform I think is very unlikely to happen. Administrative reform though is certainly possible and I think there are tremendous opportunities there and I think that the path that Mike Calhoun and his co-author lay out is a good one with caveats and with potential changes.

But I think it can't wait. I think we have to act and we have to do whatever we can administratively now while we keep trying to make the case for Congress to act as well.

MR. GREEN: Well, in the words of Monty Python, it's not dead, it's just resting. I think we have the opportunity now to shift towards a utility model and we have to take full advantage of that. I think the Calhoun paper creates a great road map. I think in some places it doesn't actually even go far enough.

And I also think we have great opportunities at the Bipartisan Policy Center to perhaps road test some ideas.

MS. FRANKLIN: And I'll just jump in and I'll say — I'll just underscore I worked on the Hill for about eight years or so working on these issues, and as my colleagues on the panel have noted, it's very hard to do GSE reform legislatively. There have been a lot of very, very smart people that have worked on this and politically it just always ended up kind of in the same place. I think that's why the Calhoun plan is a great step forward, it's a great I think conversation starter to reignite this discussion I would say. And I think the Biden Administration has a great deal of a blueprint here to at least start talking about various parts of it.

MR. SHEA: And I'll say about eight, nine years ago the BPC had a panel called Housing Finance Reform: Is Inertia Gaining Momentum. Maybe that sort of describes where we are here.

But I'm an optimist. Thank you, Bryan, for the plug. I do feel we are in a housing — we are in a housing crisis that's affecting both homeowners, affecting renters, and tremendous affordability challenges. And we need to work together and do it in a bipartisan way. And maybe this can be the beginning of more conversations going forward.

MR. KLEIN: Well, I appreciate that. I appreciate all of you for joining us today. The Brookings Center on Regulation of Markets is committed to having an open and honest dialogue on pressing issues representing diverse sets of views. And, you know, I think we've had one today. We've had a robust discussion. I'm always reminded of the fact that plan beats no plan and no plan itself is a plan, and that has serious consequences. I can say, having been on the ground floor in 2008 when we were doing this, nobody anticipated a conservatorship that would last this long. In my Jewish faith, after 13 years of life, you can become bar or bat mitzvah, in which case you enter into full adulthood on a religious level. If Fannie and Freddie had been born in their conservatorship, they would have been a pandemic bar or bat mitzvah probably done virtually and now the conservator itself would be an adult under Jewish law. This is kind of an insane outcome. There are some serious consequences to be thought through about administrative action. Congress has the opportunity to always step in, but I can tell you from having lived through a midterm shellacking, administrations are quick to pivot. I would point out that of the three most recent presidents who experienced problematic midterms, two of them, President Obama and President Clinton, went on to win second terms even after having been beaten badly in the midterms. And if that process were to repeat itself, from at least my experience inside the administration, the first question asked is how can we achieve our objectives without congressional support. And I don't think there are many things out there that unlock $100 billion for affordable housing and the priorities that Brian and Margaret and Diane and Dennis have mentioned.

So I encourage everybody to read the paper, come up with your own ideas, your own alternative plans. And I look forward to continuing this conversation in writing and potentially in future events. I wish everybody a wonderful day and thank everybody again.

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