Asset-Backed ALERT

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Outlook Shifts for Mortgage-Agency Reform

Has the federal government largely completed its overhaul of Fannie Mae and Freddie Mac?

Speaking as moderator of a panel at the Structured Finance Industry Group's "ABS Vegas 2015" conference on Monday, Andrew Davidson of risk-analytics firm Andrew Davidson & Co. plans to offer the somewhat contrarian view that the agencies already are close to being finished products. Another panelist, Chris DiAngelo of Katten Muchin, is expected to echo that opinion.

While there have been differing opinions on whether the government ever would follow through on proposals to shutter Fannie and Freddie, the prevailing opinion among market players has remained that lawmakers still were planning major revisions to their operations. But with their risk-sharing initiatives now up and running under Fannie's Connecticut Avenue brand and Freddie's Structured Agency Credit Risk label — and work on a common securitization program well under way — Davidson argues that the biggest changes already have occurred.

"Everybody has been so focused on shutting Fannie and Freddie and replacing them with something else, but they are just so embedded in our process," he said. "The truth is that . . . [mortgage-agency] reform is essentially complete."

Officially, Davidson's panel will focus on the current state of policy for Fannie and Freddie. Indeed, Fannie senior vice president Richard Sorkin and Freddie senior vice president Mark Hanson are on the list of speakers — with neither authorized to discuss forward-looking topics.

That won't stop others from talking about how private-label lenders might win more business with the agencies continuing to control more than 90% of the mortgage market. That could be a matter of waiting for their regulator, the Federal Housing Finance Agency, to reduce the maximum sizes for agency loans or increase the fees it charges to guarantee bonds backed by Fannie and Freddie loans, Davidson said.

Lending limits so far have remained elevated, however, with guarantee fees potentially due for a decrease.

While proposals to unwind or reform Fannie and Freddie have taken many forms in the years following the financial crisis, a lasting theme has been that the government eventually would replace the agencies with a new entity that might leave more room for private-label operations to work with borrowers. In May, for example, the Senate Banking Committee approved a bipartisan bill calling for the creation of a new government-backed guarantor.

But the leaders of the committee since have been replaced by Senators who want Fannie and Freddie to remain intact, a desire that dovetails with FHFA Chairman Mel Watt's position as an advocate for the agencies.

Since taking over in December 2013, Watt has sought to reverse a proposed increase in agency guarantee fees. He also has opposed reductions in loan limits, and was behind a move to reduce the agencies' minimum down payments to 3%. "The momentum . . . certainly has shifted over the past year as the FHFA has really taken the lead on [agency] reform," one policy analyst said. "It's difficult to see how it will be a national priority in the next few years. It will ultimately depend on Congress, which really isn't showing any appetite for a major change."

Davidson added that with less of a mandate to overhaul Fannie and Freddie, all that remains for Congress is to determine when and how to take the operations out of conservatorship. He believes the solution will be to form a lender-owned cooperative, as opposed to taking the agencies public.

Fannie and Freddie were placed in government conservatorship in 2008. They since have received $187 billion of bailout money, providing the thrust for efforts to reduce taxpayers' exposures to the operations.