The Community Mortgage Lenders of America

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Press Contact:
Anita Willis-Boyland
AWBCommunications@Comcast.net
240.432.7798

No Sense in Keeping the GSEs Undercapitalized

Washington, D.C., December 15, 2014/PRNewswire – The Community Mortgage Lenders of America (CMLA) today called on Treasury Secretary Jack Lew and chief GSE regulator Mel Watt to take immediate action to cure the under-capitalization of both the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (GSEs).

In a December 10, 2014 letter to the Federal Housing Finance Agency Director and the U.S. Treasury Secretary, the CMLA requested they immediately restructure the payment terms embedded in the Preferred Stock Purchase Agreements (PSPAs) to enable the GSEs to retain more of their net earnings and re-build their currently insufficient capital positions.

CMLA Chair Paulina McGrath noted there is no point in keeping GSE guaranty fees at today's historically high levels to generate large profits, if those same profits do not make the GSEs more financially stable. "Making mortgage money more expensive is simply locking many borrowers out of the market and serves no benefit to the GSEs. Renegotiating the PSPA now is a common sense approach to ensuring the safety and soundness of the GSEs."

The GSEs financial resurrection seems to be benefitting the U.S. Treasury at the expense of low- and moderate-income borrowers who simply cannot afford the high GSE fees. Collectively, the GSEs have normalized net earnings at approximately $20-to-$25 billion a year. Nevertheless, Treasury continues to collect quarterly profits at levels never imagined under the initial PSPA.

> The vast majority of the GSE fee revenue is being passed onto the U.S. Treasury, leaving current GSE capital levels far too low to address the risk of even a moderate downturn. This undercapitalization leaves the GSEs dependent upon the US Treasury for additional assistance in the event of adverse financial developments. Such a situation benefits neither the mortgage and housing markets, nor the consumers they serve.

This irrational situation is created by the terms of the GSE payment agreement with the U.S. Treasury in exchange for the $190 billion GSE bailout. Currently, the GSEs must remit 100 percent of profits, which precludes building capital. To date, Treasury has been more than repaid. GSEs have paid a total of $220 billion and must continue to remit all profits. They are on track to be the most lucrative of all 2008 Treasury interventions in the financial sector.

Treasury can – and should – take immediate corrective action to cure the undercapitalization of the GSEs. There is neither a need nor a rational reason to wait on Congress to act, particularly since GSE reform legislation is far from certain.

“Mortgage bankers have now joined the Civil Rights groups and community banks in asking for this important, common-sense change,” McGrath said.

The alternative, and the less preferable, approach is to lower the GSE guaranty fees. This would at least remove an unnecessary tax locking so many homebuyers out of the market.

CMLA urges a more rational approach to supporting the U.S. housing market. The GSEs financial health historically furthered homeownership rates and there is no rationale for risking their ability to do so now. Surely, the Treasury and Congress are equally dedicated to precluding another financial crisis. This obvious structural weakness should never have materialized within the GSEs and it is incumbent upon this Administration to take the corrective action necessary to enable full and safe capitalization of each GSE. The CMLA urges the Administration to modify the PSPA as soon as possible – American homebuyers deserve no less.

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About the CMLA

CMLA is the *only* trade association solely dedicated to advocating for independent, community-based residential mortgage lenders. *Founded in 2009, The CMLA is committed to the preservation of a thriving independent mortgage lending sector, which increases competition in the industry and, thus, provides borrowers with greater choice and lower costs. The CMLA* membership includes lenders nationwide that, collectively, originate more than $100 billion worth of residential mortgage loans annually. The CMLA works to ensure the interests of its members are effectively represented before members of Congress, Federal regulators and the Executive branch.

For more information, please visit www.thecmla.com and/or direct policy and member inquiries to Glen Corso at 925.323.7084