# Senator Johnny Isakson
## *The Mortgage Finance Act of 2011*

*The Mortgage Finance Act* gets the American taxpayer out of the business of having to bail out the mortgage industry by winding down Fannie Mae and Freddie Mac over 10 years and creating a new regulatory framework for high-quality mortgage securitization for both single-family and multifamily mortgages. The legislation accomplishes the following:

**1. Shuts down Fannie Mae and Freddie Mac**

- No later than 18 months from the date of enactment, Fannie Mae and Freddie Mac will be placed in receivership. During their wind down, their receiver will be required to maximize the repayment to taxpayers of the full amount of the bailout since 2008.

**2. Creates a new transitional program to guarantee securitizations of high-quality mortgages for a 10-year period after which the new operation shall be privatized**

- The new Mortgage Finance Agency created by this legislation shall guarantee the timely payment of principal and interest on securitizations of high-quality single-family and multifamily mortgages serviced by approved lenders.
- A main function of the Mortgage Finance Agency is to provide a dependable, transparent market for high-quality mortgages.
- "Guarantee fees," also known as "g-fees", will be charged to cover the cost of guaranteeing the securities. The Mortgage Finance Agency will charge the same "g-fees" to all lenders, so as to level the playing field and eliminate preferential fee arrangements.

**3. Creates a new, self-funding catastrophic fund to protect taxpayers from having to bail out another housing collapse during the 10-year transition period before privatization**

- The Mortgage Finance Agency will charge "guarantee fees," also known as "g-fees," that will be priced to capitalize a new catastrophic fund, to cover any losses, and, as the transition proceeds, to purchase supplemental insurance from the private-sector. The g-fee will also finance operations of the new entity, so that it will be entirely self-funding.
- The catastrophic fund will be dedicated to paying unexpected losses the Mortgage Finance Agency might incur in the case of extreme, unpredictable market downturns.
- Once the catastrophic fund is fully capitalized, the Mortgage Finance Agency will purchase supplemental insurance from non-government insurers to further insulate the government from any risk of loss. This is an added layer of protection for the taxpayer.
- The definition of high-quality single-family mortgages shall mirror the intent of the statutory language that was included in H.R.4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known informally as Dodd-Frank, and not the narrow interpretation (20 percent down payment requirement) in the March 30, 2011, proposed rule by the FDIC and other federal regulators. Under this legislation, prudently underwritten 5 percent minimum down payments could meet the definition of a high-quality mortgage as long as they are solid, fully documented traditional mortgages. Low down payment mortgages will be further strengthened through private mortgage insurance.
- High-quality multifamily mortgages will reflect proven industry standards for high-quality multifamily mortgages.

**4. Pays back the American taxpayer for the cost of the Fannie Mae and Freddie Mac bailout**

- Any portion of the bailout of Fannie and Freddie that has not been repaid after they are wound down shall be recouped: (1) by the sale of the new Mortgage Finance Agency after 10 years, with any surplus going to fund the national debt; and (2) if still a shortfall after sale of the Mortgage Finance Agency, by excess sums in the catastrophic fund not needed to support the guarantee.

**5. Shuts down the new program completely within 10 years at no cost to the taxpayer and turns it over fully to the private-sector**

- Within three years, the Board of the Mortgage Finance Agency shall develop a detailed plan for the orderly transition and sale of the Mortgage Finance Agency. Implementation of the plan shall begin in year five, and privatization shall be concluded no later than 10 years after enactment.