

The prevalence of the 30-year mortgage in the housing market will rapidly diminish and eventually disappear without a government guarantee for related mortgage-backed securities.

Two members of the House Financial Services Committee, Reps. Gary Peters (D-Mich.) and **John Campbell**

(R-Calif.) told attendees at the American Securitization Forum's annual meeting in Washington that this is precisely what will happen if legislation they plan to introduce is not passed into law.

"How many of you are going to be excited to buy a package of 30-year, mortgage-backed securities in the TBA market that's not government guaranteed?" Campbell asked the crowd of secondary market issuers and investors. "Let the record show, the hands showing up are zero."

Campbell said the insurance program will be on bonds and not on institutions. It's an idea that holds bipartisan support and is supported by the Federal Insurance Deposit Corp., as well, he added.

"Thirty-year mortgages will need to be securitized. The FDIC will not allow banks to hold them. And the banks want to do it privately," Campbell said. "We don't like to call it a GSE bill, because we aren't going to have GSEs. If we are going to have housing recover, we need housing finance to recover."

In May, **Campbell** told HousingWire the proposed bill had already garnered support from around the industry.

Campbell and Peters are pushing to create guarantee associations. These will be private entities, which hold 5% risk retention on mortgage bonds, and regulated by FHFA.

"We are not doing (Fannie and Freddie) all over again. Fannie Mae and Freddie Mac are guaranteed entities. This will guarantee the performance of the loans, not the entities

itself," he said.

Campbell said the legislation will create five such associations, at least as a start. In the future, he hopes these associations will increase in number and specialize in different operations. This way an entity can fail, but the mortgage markets will be diverse enough to absorb the blow.

"Americans don't want hedging strategies based on changing mortgage rates," added Peters. "They want 30-year, fixed-rate mortgages with no surprises."

During the question and answer portion of the panel, one observer wondered why the GSEs shouldn't become the first two such guarantee firms. It would be easier, he posited, to wind down GSE issuance and transform the firms into insurers. This would save an enormous amount of taxpayer money, he said.

Campbell countered that Fannie and Freddie are now too political for such a solution.

Peters quickly added: "The system of private gains and socialized loss is a moral hazard and needs to end."