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Capito discusses finance reform efforts

by **Jared Hunt**
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Despite the recent political brinksmanship in Congress, Rep. Shelley Moore Capito told state community bankers Monday she's optimistic lawmakers might finally get around to reforming the nation's mortgage finance system next year.

Capito said reform would likely include shutting down government-backed mortgage financiers Fannie Mae and Freddie Mac, which were bailed out by taxpayers during the 2008 housing market collapse.

She said leaders in both parties, as well as President Barack Obama, are pushing to curtail the government's role in guaranteeing and financing mortgages to avoid another bailout, should the housing market take another turn south.

"There's a general feeling -- among Republicans and Democrats -- that we need to move that potential for another government bailout out of Fannie and Freddie and reconstitute them," Capito said.

Capito was speaking to a group of state community banking leaders attending Spilman Thomas and Battle's community banking symposium Monday at the Charleston Marriott.

The chairwoman of the House Subcommittee on Financial Institutions and Consumer Credit, Capito said lawmakers are currently looking at ways to reduce the government's liability in the mortgage finance system while at the same time ensuring that reforms don't limit mortgage lending.

"We don't want to do anything that would hurt the housing market because if we're going to ever get this economy moving and rolling, we've got to have that good housing market," she said.

Fannie and Freddie are at the heart of the nation's mortgage finance system.

While they don't make loans directly, they do buy mortgages from lenders, guarantee them against default and package them into bonds that are then sold to investors. Fannie and Freddie currently own or guarantee half of all U.S. mortgages and back nearly 90 percent of new ones.

When the housing market collapsed in 2008, the U.S. government had to sink $187 billion into Fannie and Freddie as a bailout.

Some reform opponents have said Fannie and Freddie have returned to profitability and have paid tens of billions of dollars back to the federal government.

Capito said the current situation still leaves taxpayers on the hook if anything were to go wrong. She also pointed to the $1.7 billion bailout for the Federal Housing Administration's reverse mortgage program as evidence the system needs to be reformed.

In August, President Obama backed a plan to unwind Fannie and Freddie, leaving the government responsible for guaranteeing only a small group of mortgages.

Capito's committee has passed a reform called the PATH Act that turns the system completely over to the private market.

Some bankers expressed concerns that the lack of a government guarantee might make it more difficult to attract outside investment in the mortgage market. Capito said she had heard those concerns and would consider making improvements, calling the PATH Act a "first step."

"It's in a process, right now, it's not firm, but it is moving and I think it's about time," she said. "It's been five years (since the bailout), and I think it's about time we start looking at reform and alleviating the taxpayer burden that Fannie and Freddie present."

Capito also said she and other lawmakers were pressing the federal Consumer Financial Protection Bureau for a one-year delay in implementing new rules for so-called qualified mortgages.

The rules apply to mortgages that banks intend to sell off and focus on the ability of borrowers to pay off the loan. If the borrower fails to meet a certain debt-to-income ratio, the mortgage is not considered qualified.

Capito said a private study by real estate analysis firm CoreLogic found that 52 percent of loans made in 2010 did not fall under the qualified mortgage standard. She said the new standard, which goes into place Jan. 1, would make community banks less likely to lend to people below that threshold.

"Who's going to get thrown out of this? It's not going to be the very wealthy, or the folks who have a lot of income," she said. "It's going to be the farmer who maybe had a bad year, or the doctor right out of medical school who might have a lot of income but has a lot of debt from school, or the single mom who is just coming out of a divorce and doesn't have a lot of income."

Capito said she wasn't optimistic that regulators would delay the rule but said community banks should speak up before the change goes into effect.

West Virginia Banking Association President Joe Ellison said banks have already felt the impact of regulations over the years. Regulatory burdens, he said, have forced consolidations and mergers as companies have realized they were too small to have adequate compliance staffs.

In 1984, there were 248 banks doing business in West Virginia. Today, that number hovers around 80, 56 of which are community banks, with the rest made up of out-of-state bank companies.

He said that trend is continuing as a result of regulations passed following the 2008 crisis.

"Most everybody that's being hired today is a new compliance guy," Ellison said. "So instead of hiring new retail or sales people to go out and make more loans and that kind of stuff, they're spending their money on trying to comply with all the regulations."

Capito said the regulations were designed for the larger financial institutions that were the cause of the financial crisis. She said the vast majority of local community banks run their businesses in a responsible manner and don't involve themselves in the more risky investment strategies of larger institutions.

She said she has been pushing to find some way to separate the regulatory approach for big banks from that of the smaller ones.

"For a J.P. Morgan that can afford all kinds of accountants and lawyers and compliance offices to understand and navigate all this, it's OK," she said. "For a smaller institution, it's not fine. It's almost untenable."

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