



GSE Activity Report

Friday, September 24, 2021

Twenty Years Long and What Do You Get?

Summary

According to a group of Senate Democrats, the answer to this question for a new class of federally-backed mortgages is "out of debt." A new bill thus creates 20-year FRMs with 30-year FRM amortization schedules for low-income, first-generation borrowers. Treasury would then make up the difference to lenders and investors.

Impact

S. 2797 was introduced Wednesday by Sens. Warner (D-VA), Van Hollen (D-MD), Warnock (D-GA), Kaine (D-VA), and Ossoff (D-GA). The measure is similar to the \$500 million subsidy for 20-year FRMs included in the HFSC housing package incorporated into the massive reconciliation bill, creating a platform for agreement should the far larger disagreements over the giant bill somehow resolve themselves.

Treasury's role in these 20-year FRMs would be to subsidize their rates and origination fees to no more than 110% of a conventional 30 year FRM, nor less than 100% of a 30-year FHA loan. An up-front FHA fee would be folded into principal and there would be no FHA premiums. According to the [bill's summary](#), this doubles the rate of equity accumulation without risk of inflating house prices by unduly-deep subsidies.

Treasury's subsidy is delivered in a way designed to reduce its budget impact – i.e., Treasury would buy the Ginnies backed by these 20-year FRMs, doing so at a premium to reimburse lenders and then selling the loans into the fixed-income market at a discount. We find it interesting that Treasury is not required to sell the loans to the Fed in part, a way of hiding the peanut from a budgetary perspective, but of course doing so would increase the already-controversial nature of the Fed's \$40 billion monthly agency purchases and complicate its [newly-announced path](#) to a taper.

Outlook

The bill's summary also notes the value of downpayment assistance, suggesting that at least some of its sponsors would go for that along with the 20-year FRM subsidies if conference negotiations headed that way. We won't, however, even attempt to forecast what happens next because both of these provisions are tiny minnows in a pool full of sharks.